NOTES TO FINANCIAL STATEMENTS

December 31, 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Seattle was incorporated on December 2, 1869. The City operates under a City Charter adopted on March 12, 1946, providing for a nonpartisan Mayor-Council form of government. The City Council is composed of nine members elected at large to four-year terms. The City provides the full range of municipal services authorized by its charter and operates four rate-funded utilities.

The accounting and reporting policies of the City of Seattle, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office. The City's significant accounting policies are described below.

Reporting Entity

The City of Seattle (the primary government) for financial reporting purposes consists of the funds, account groups, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

Indicators of Financial Accountability

The financial statements include the organizations for which the elected officials of the City of Seattle are financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and
    - Ability of the City to impose its will on the daily operations of an organization, such as the power to remove appointed members at will; to modify or approve budgets, rates, or fees; or to make other substantive decisions; or
    - Provisions by the organization of specific financial benefits to the City; or
    - Imposition by any organization of specific financial burdens on the City, such as the assumption of deficits or provision of support;
- Or, fiscal dependency by the organization on the City, such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

Joint Ventures

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. (Note 12)

The City participates in joint ventures with King County as follows:

- Seattle-King County Department of Public Health
- Seattle-King County Work Force Development Council

Organizations Excluded: Related Organizations

Organizations for which the City has appointed a voting majority of the members of the governing body, but for which the City is not financially accountable, are as follows:

- Housing Authority of the City of Seattle
- City of Seattle Industrial Development Corporation
- Burke-Gilman Place Public Development Authority

Basis of Presentation - Fund Accounting

The accounts of the City are organized by fund and account group, each of which is considered a separate accounting entity. Each fund has a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance or equity, revenues, and expenditures or expenses, as appropriate.

The City's resources are allocated to and accounted for in individual funds according to the purposes for which they are spent and the means by which spending activities are controlled. The three broad fund categories, seven generic fund types, and two account groups presented in this report are described below.

Governmental Funds

Governmental funds are accounted for on a flow of current financial resources measurement focus. The balance sheet emphasizes the accounting for currently available assets and current liabilities. Fixed assets are not accounted for in these funds. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "measurable and available resources" during a period. Revenues and expenditures are recognized on a modified accrual basis.

The General Fund is the general operating fund of the City. It accounts for all financial resources except those required to be accounted for in other funds.

Special revenue funds account for certain revenues, such as specific taxes, grants, and other resources, that are legally restricted to be spent for specified purposes.

Debt service funds account for the accumulation of resources to pay principal, interest, and related costs on general long-term and special assessment debt.

Capital projects funds account for financial resources that are designated for the acquisition or construction of general government capital improvements.

Proprietary Funds

Proprietary funds are accounted for on a cost of services or capital maintenance measurement focus. Assets and liabilities (whether current or noncurrent) associated with their activity are included in their balance sheets. Their fund equity (net total assets) is segregated into contributed capital and retained earnings components. (In 2001 the City implemented GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. Pursuant to GASB 33, in 2001 the proprietary funds recognized capital contributions as revenues, not as contributed capital. In accordance with GASB 33, the City has not restated contributed capital arising from prior periods.)

Enterprise funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal service funds account for operations that provide goods or services to other departments or funds of the City or to other governmental units on a cost-reimbursement basis.

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has chosen flexible application and reporting in accordance with the election of each fund. City Light, an enterprise fund, has elected to apply all Financial Accounting Standards Board (FASB) statements and interpretations, except those inconsistent with GASB pronouncements. The other proprietary funds have chosen to apply GASB pronouncements and those FASB pronouncements issued on or before November 30, 1989, except where they conflict with a GASB pronouncement.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These include pension trust, nonexpendable trust, expendable trust, and agency funds. Pension and nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is essential. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not measure the results of operations.

Account Groups

Account groups are used to establish accounting control over the City's general fixed assets and general long-term debt. The City uses the following account groups:

General Fixed Assets Account Group	This group accounts for all fixed assets of the City other than those accounted for in proprietary-type funds.
General Long-Term Debt Account Group	This group accounts for all long-term debt of the City, including special assessment debt but excluding the debt accounted for in proprietary-type funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses and transfers are recognized in the accounts and reported in the financial statements.

Modified Accrual Basis of Accounting

The modified accrual basis of accounting is followed in all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Revenues that are measurable but not available are recorded as receivable and offset by deferred revenues.

Property taxes, business and occupation taxes, and other taxpayer-assessed tax revenues due for the current year, are considered measurable and available and are therefore recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Special assessments are recognized as revenues only to the extent that individual installments are considered current assets. Intergovernmental revenues received as reimbursements for specific purposes are recognized when the expenditures are recognized. Intergovernmental revenues received but not earned are recorded as deferred revenues. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are accrued as earned.

Expenditures are recorded when the liability is incurred, except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are recorded when paid. Judgments and claims, workers' compensation, and compensated absences not currently due and payable for governmental funds are recorded in the General Long-Term Debt Account Group.

Accrual Basis of Accounting

The accrual basis of accounting is followed in the proprietary funds and pension and nonexpendable trust funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Certain costs in the enterprise funds are deferred and expensed in future years as the utility rates recover these costs.

The revenues of the four utilities, which are based upon service rates authorized by the City Council, are determined by monthly or bi-monthly cyclical billings to customers. Amounts received but not earned at year-end are reported as deferred revenues. Earned but unbilled revenues are accrued.

All assets and liabilities and all additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transactions or events occur. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

New Accounting Standards

In December 1998 GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Statement establishes accounting and financial reporting standards for state and local governments to report the results of nonexchange transactions involving cash and other financial and capital resources. It requires the reporting of all nonexchange transactions in the financial statements as revenues effective for periods beginning after June 15, 2000. Capital fees, contributions, and grants were reported by the proprietary funds as a component of equity as contributions in aid of construction prior to implementation of GASB Statement No.33. Effective January 1, 2001, these capital fees, contributions, and grants are reported in the Statement of Revenues, Expenses, and Changes in Retained Earnings as a result of the adoption of the Statement. The cumulative effect of the adoption of GASB Statement No. 33 will be made in 2002 in conjunction with the implementation of GASB Statement No. 34.

In June 1999 GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments.* The objective of the Statement is to enhance the understandability and usefulness of the general-purpose financial reports of state, local governments, and special-purpose governments to the citizenry, legislative and oversight bodies, investors, and creditors, and will be implemented by the City in 2002.

In 2001 City Light implemented Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and certain Hedging Activities*. Both statements were effective for fiscal years beginning after June 15, 2000. SFAS Nos. 133 and 138 require that the fair value of derivative financial instruments be recognized as either assets or liabilities on the entity's balance sheet and that changes in the fair value of a derivative instrument be included in earnings.

Budgets and Budgetary Accounting

The City Council approves the City's operating budget. In addition, the City Council annually approves two separate but related financial planning documents: the Capital Improvement Program (CIP) plan and the Community Development Block Grant (CDBG) program allocation.

The operating budget is proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The budget is designed to allocate available resources on a biennial basis among the City's public services and programs and provides for associated financing decisions. This budget appropriates fiscal year expenditures and establishes employee positions by department and fund except for project-oriented, multi-year appropriations made for capital projects, grants, or endowments.

The CIP plan is also proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The CIP is a six-year plan for capital project expenditures and anticipated financing by fund source. It is revised and extended annually. The City Council adopts the CIP as a planning document but does not appropriate the multi-year expenditures identified in the CIP. These expenditures are legally authorized through the annual operating budget or by specific project ordinances during the year.

The CDBG planning process allocates the annual grant awarded by the federal government. Allocations are made to both City and non-City organizations. Legal authority is established each year by a separate appropriation ordinance for the Housing and Community Development Revenue Sharing Fund.

Budgetary control for the operating budget generally is maintained at the line of business level within departments with the following exceptions. Appropriations from General Fund reserve accounts and specific projects and activities budgeted in the Finance General category within the General Fund are controlled individually. The Library Fund has its total budget set at fund level by the City Council, but its actual expenditures are controlled by the Library Board. Capital projects programmed in the CIP are controlled at the project or project phase level, depending on legal requirements. Grant-funded activities are controlled as prescribed by law and federal regulations.

The City Council may, by ordinance, abrogate, decrease, or reappropriate any unexpended allowances during the year. The City Council, with a three-fourths vote, may also increase appropriations. Emergency subfund appropriations related to settlement of claims, emergency conditions, or laws enacted since the annual operating budget ordinance require approval by two-thirds of the City Council.

The Budget Director may approve the transfer of appropriations within a budget control level. In addition, the Budget Director may transfer up to ten percent of appropriation authority between a department's budget control levels within a fund.

In accordance with State law, any unencumbered and unexpended appropriation balances for operating or maintenance expenditures automatically lapse at the close of the fiscal year except any appropriation continued by ordinance. Unexpended balances for capital or betterment outlays remaining at the close of the fiscal year are carried forward to the following year except any appropriation abandoned by ordinance. Appropriation carryovers are reported as reserved for continuing appropriations and reserved for capital improvements.

Budgetary accounts are integrated in the fund database for all budgeted funds, including CIP and CDBG projects. However, the annual financial report (Exhibit 3) includes budgetary comparisons for annually budgeted governmental operating funds only. (See Note 2 for list of budgeted funds.) Budgetary comparisons for proprietary funds may be requested from the Finance Department. Budget figures include appropriation carryovers from previous years, the adopted annual budget, and any revisions during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances, which do not lapse and are included with expenditures.

Encumbrances

An encumbrance system is maintained for budgetary control and to account for commitments resulting from approved purchase orders, contracts, and other commitments except certain multiyear contracts not currently appropriated. Certain transactions, such as personal services, interfund activities, direct vouchers, and emergency purchases, are not encumbered because of the nature of the transactions and existence of other controls which effectively prevent overexpenditure. Encumbrances remaining at year-end are reported as a reserve of existing fund balance in governmental funds.

Cash and Investments

The City is authorized to purchase U.S. Treasury and government agency securities, certificates of deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by Revised Code of Washington (RCW) 39.58, bankers' acceptances purchased in the secondary market, commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies, and repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements.

The City and the City Employees' Retirement System are also authorized under State law to make security lending transactions. Under the authority of RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Securities lent must be collateralized with cash or securities having 102 percent of the market value of the loaned securities. The City and the Retirement System have the ability to pledge or sell collateral securities without a borrower default. The City Employees' Retirement System has outstanding securities lending transactions at the end of the year. Gross income from securities lending transactions, as well as the various fees paid to the institution that oversees the lending activity, are recorded in the operating statements. Assets and liabilities include the value of the collateral that is being held.

Under the City's investment policy, all temporary cash surpluses are invested. Pooled investments are reported on the Combined Balance Sheet as Cash and Equity In Pooled Investments. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balance during the preceding month. It is the objective of the City's investment program to ensure the safety of the City's capital. This is accomplished through a program of diversification and maturity limitations. According to City policy, securities purchased will have a maximum maturity of no longer than 15 years, and the average maturity of all securities owned should average no longer than five years. The investment program is administered in a manner that ensures adequate cash flow to meet reasonably anticipated liquidity needs.

Since the participating funds in the City's internal investment pool use the pool as if it were a demand deposit account, the proprietary fund equity in pooled investments is considered cash for cash flow reporting purposes.

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Venture capital and real estate equities are reported at fair value which has been determined by independent appraisers.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.

- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.

- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.

- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.

- All transactions are done on a delivery-versus-payment basis.

- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.

- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

The Seattle City Employees' Retirement System's investment management policies are set by the Retirement Board. The major difference is that State law allows the System to invest in longer term maturities and in a broader variety of securities, such as real estate and equity issues. The Board policies require that investments in any one corporation or organization may not exceed five percent of net assets available for benefits. Less than five percent of plan assets can be invested in derivative securities. All derivatives were high quality nonleveraged securities consisting of collateratized mortgage obligations, Treasury strips, convertible bonds, futures, options, etc. These derivatives cause little exposure to credit risk, market risk, or legal risk.

Receivables

Taxes

Property taxes are levied by the County Assessor and collected by the County Finance Director. Assessments are based on 100 percent of market value. They are levied and become a lien on the first day of the levy year. They may be paid in two equal installments if the total amount exceeds $30. The first half is due on April 30, or else the total amount becomes delinquent May 1. The balance is due October 31, becoming delinquent November 1. Delinquent taxes bear interest at the rate of one percent per month until paid and are subject to additional penalties of three percent and another eight percent on the total unpaid delinquent balance on June 1 and December 1, respectively. Foreclosure action is commenced on properties when taxes are delinquent for three years.

Uncollected property taxes levied for the current year are recorded as receivables and deferred revenues at year-end. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

The portion of delinquent taxes receivable that are "available" are recognized as revenues. "Available" means collected or collectible within the current period or expected to be collected soon enough thereafter, within a period not to exceed 60 days, to pay current liabilities.

Accounts and Contracts Receivable

Customer accounts receivable consists of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Notes and contracts receivable is a receivable arising from a written agreement or contract with private individuals or organizations. Receivables are shown net of allowances for uncollectible accounts.

Amounts Due from Other Funds and Governmental Units, Interfund Loans, and Advances Receivable

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Intrafund receivables and payables are eliminated.

Interest

Interest income on investment securities is accrued as earned in all funds.

Unbilled Services

Utility revenues for services provided between the last billing date and the end of the year are estimated and accrued in the accompanying financial statements for enterprise funds. Other services performed but not billed are accrued and reported as unbilled receivables.

Advances to Other Funds

Advances to other funds in governmental funds are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets.

Inventories

Inventories are generally valued using the weighted-average cost method and consist of expendable materials and supplies held for consumption.

The cost is recorded as an expenditure in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. However, the consumption method is applied in the Transportation Fund, a special revenue fund, where the cost is recognized as an expenditure when the inventory is consumed. Governmental fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

Restricted Assets

In accordance with the utility bond resolutions, State law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund is determined by its measurement focus. Fixed assets used in governmental fund operations are accounted for in the General Fixed Assets Account Group rather than in the governmental funds. Fixed assets used in proprietary fund operations are accounted for in the proprietary funds.

General fixed assets are recorded as expenditures in the governmental fund purchasing the asset and are recorded in the General Fixed Assets Account Group at actual or estimated cost. Estimated costs are based on a review of appraised property values, deeds, old appropriations ordinances, and any other correspondence relevant to the historical costs of these properties. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciation is not reported for general fixed assets. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, sidewalks, and street lighting, are not capitalized.

For proprietary funds, fixed assets are reported at cost or, if contributed, at donor cost or appraised value at the date of acquisition. The donor cost or appraised value of contributed fixed assets is included in contributed capital and the associated depreciation is charged to operating expense. Cost includes an allowance for funds used during construction which is based on either the weighted-average interest rate of bonds outstanding during the period or the interest rate of bonds issued to finance a specific project, as appropriate.

Capital leases are recorded at the present value of future lease payments and amortized on a straight-line basis over the life of the lease. The governmental funds' liability for capital leases is recorded in the General Long-Term Debt Account Group.

Fixed assets used by proprietary funds are depreciated. Annual depreciation is recorded as an expense of the fund. Provision for depreciation is computed using the straight-line method over estimated service lives as follows:

Buildings	25 - 50 years
Improvements other than buildings	25 - 50 years
Utility plant	33 - 100 years
Equipment	2 - 25 years

Composite rates are used in the enterprise funds for depreciating asset groups. Consequently, when assets are retired, their original cost together with removal costs less salvage is charged to accumulated depreciation. The cost of current maintenance and repairs is charged to expense, while the cost of renewals and betterments is capitalized.

Deferred Charges

Deferred charges may include the preliminary costs of projects and information systems, programmatic conservation costs, landfill closure costs, certain purchased power expenses, the cost of future construction of plant owned and operated by other entities for future services, and charges related to bond refunding.

Preliminary costs incurred by the enterprise funds for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; costs are charged to expense if a project is abandoned or deferred if the costs are to be recovered through future use. Conservation program costs in the Light and Water Utilities which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives due to the utilities' capital financing plans and rate-setting methodology. Costs of administering the overall program are expensed as incurred.

In the proprietary funds the premium or discount and issuance costs of long-term debt are amortized over the life of the debt. For current refunding and advance refunding of revenue bonds, the difference between the reacquisition price and net carrying amount is amortized over the shorter of the remaining life of the old debt or the life of the new bond issues.

To the extent landfill closure costs are covered by grants, the Solid Waste Utility reports these costs as operating expense. The grant moneys are recorded as other income. Solid Waste's portion of the costs is deferred and amortized as it is recovered from the ratepayers (Note 10).

Accumulated Compensated Absences

Compensated absences including payroll taxes are accrued as a current liability in the proprietary and pension trust funds. For the governmental funds, compensated absences are accounted for in the General Long-Term Debt Account Group. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is generally estimated using the termination method provided by GASB Statement No. 16, *Accounting for Compensated Absences* (Note 6, Table 6-1).

Vacation Pay

Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or termination is considered vested and payable to the employee.

Sick Pay

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25 percent of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement.

Other Compensated Absences

Other compensated absences include compensatory time in lieu of overtime pay; merit credits earned by fire fighters; furlough earned by police; holiday earned by library and police employees; and other compensation earned by City employees under law or union contracts. Unused compensated absences are payable at retirement or termination.

Risk Management

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are recorded discounted at the City's investment rate of return (Note 14).

Other Accrued Liabilities

Other accrued liabilities include deposits, interest payable on obligations other than bonds, and current portions of lease-purchase agreements.

Interfund Contracts/Advances

Interfund debt is recorded in the appropriate funds even though that debt may result in a noncurrent liability for a governmental fund because the debt is not a general obligation of the City.

Long-Term Debt

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Long-term liabilities expected to be financed from proprietary fund-type operations are accounted for in the proprietary funds. The City has a Local Improvement District Guaranty Fund to finance any uncollectible special assessment debt.

Deferred Revenues

Deferred revenues include amounts collected before revenue recognition criteria are met and receivables which, under the modified accrual basis of accounting, are measurable but not yet available. The deferred items consist primarily of delinquent property taxes, contracts, mortgages receivable, grant funds received in advance of expenditures in governmental funds, and the amounts loaned by the Housing and Community Development Revenue Sharing Fund, a special revenue fund, under authorized federal loan programs.

Reservations and Designations

A reservation is used to segregate a portion of fund balance that is either not appropriable for expenditures or is legally restricted for a specific future use. The amounts not appropriable for expenditures are reported as fund balance reserved for noncurrent assets, inventories, petty cash, and prepaid items. The amounts legally segregated for specific future uses are reported as fund balance reserved for capital improvements and grants, debt service including judgments and claims, employee benefits, endowments and gifts, employee retirement systems, continuing appropriations, and encumbrances.

Designations of fund balances represent tentative management plans that are subject to change.

In cases where a governmental fund does not have enough available unreserved and undesignated fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented by fund type in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain accounts for the prior year have been reclassified to conform with the current year's classifications total columns on combined statements.

Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

(2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City budgets for the General Fund and some special revenue funds on an annual basis. The special revenue funds which have legally adopted annual budgets are the Park and Recreation Fund; the Transportation Fund; the Library Fund; the Seattle Center Fund; the Design, Construction, and Land Use Fund; the Human Services Operating Fund; and the Office of Housing Fund.

Table 2-1 Results of Operations of Annually Budgeted and Other Special Revenue Funds (In Thousands)

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances December 31
Annually Budgeted Funds - Exhibit 3	$ 233,162	$ 399,851	$ 156,928	$ 20,783
Adjustments to GAAP	(42,856)	(52,951)	-	19,325
Budgeted on Basis Other Than Annual:				
Street Utility Repayment	14	68	(550)	(377)
SFMS Redevelopment	35	667	-	12
Initiative 53 Planning	-	1,647	6,000	4,373
Low-Income Housing	17,673	18,183	842	36,353
Housing and Community Development Revenue Sharing	15,052	16,486	186	5,843
Education and Development Services	11,567	10,335	-	24,639
Business Improvement Areas	3,508	3,873	-	762
TOTALS - SPECIAL REVENUE FUNDS (GAAP)	$ 238,155	$ 398,159	$ 163,406	$ 111,713

The total amended appropriations for the City's annually budgeted governmental funds were $1,222,828,000. Appropriation changes in 2001 were as follows:

Table 2-2 Appropriation Changes - Annually Budgeted Governmental Funds (In Thousands)

	General Fund	Special Revenue Funds
Annual Budget	$ 711,666	$ 394,912
Carryovers		
Encumbrances	16,188	11,642
Continuing Appropriations	41,252	14,257
Capital Outlay	-	165
Carryover Adjustments	120	3,422
Intrafund	(43,845)	(172)
Budget Revisions	46,338	26,883
TOTAL BUDGET	$ 771,719	$ 451,109

Included in the budget revisions is Ordinance 120687 enacted in 2001 to supplement 2001 appropriations by $999,257 for the Fire Department; $435,000 for Finance General; $2,194,254 for the Industrial Insurance Subfund; $245,585 for the Unemployment Insurance Subfund; $13,053,688 for the Health Care Subfund; $124,000 for the Executive Services Department; $4,000,000 for the Water Utility Fund; and $4,560,000 for Seattle Transportation’s South Lake Union Traffic Improvement Program.

Deficits in Fund Balances and Retained Earnings

The Downtown Parking Garage Fund has negative fund equity of $8.6 million. This deficit is attributed to the effect of depreciation and other expenses accrued but not expected to be covered by current year operating revenues. Beginning in 2000 the Garage has been generating revenues that covered all operating expenses and current debt service but not depreciation. The negative fund balance situation will continue; however, the Garage is expected to cover future operations and debt service as they come due.

The Seattle Center Fund shows a negative fund balance of $141,597 as of December 31, 2001. A downturn in the business cycle combined with national economic factors depressed the spending level of Seattle Center visitors. Significant expense cuts partially offset the impact of the revenue shortfall but could not prevent a negative fund balance. The negative fund balance is expected to continue in 2002. Seattle Center is working with the City's Department of Finance to develop a multiyear plan for returning to a positive fund balance.

The Engineering Services Fund has $6,723,996 in deficit retained earnings. The historical reasons for the Engineering Services Fund's deficit are largely the consequence of three factors: (1) inadequate overhead rates during the mid-1990s which led to significant under-recovery of expenditures; (2) disputed costs on projects performed for other agencies and departments that resulted in unbillable receivables and writeoffs; and (3) the "compensated absences" reporting requirement, a nonbudgeted expense which in most years has had a significant negative effect on the income statement.

Most disputed billing and overhead issues have been addressed and are now closely monitored. However, the lingering effects of the problems in the 1990s led in the year 2001 to approximately $370,000 in write-offs of unbillable receivables, pushing the income statement from a modest profit to a loss of $337,000.

The remaining disputed receivables from old Washington State Department of Transportation (WSDOT) and Metro projects are now being reviewed and negotiated. In late 2001, settlement was reached with WSDOT for approximately $1,700,000 in disputed costs relating to the 1st Avenue South Bridge project, and settlement of the remaining disputed items is expected during 2002. These monies will be distributed between the Engineering Services Fund and the Water Fund for their respective shares of the work. The position of the Engineering Services Fund should improve in future years as overhead and allocation rates are fine-tuned to better insure full cost recovery, as unreimbursed project costs are monitored and resolved in a timely manner, and as longstanding disputed items are retired and their impact on the financial statements diminishes.

The Street Utility Repayment Fund shows a negative fund balance of $376,721 as of December 31, 2001. The deficit resulted from payment of refunds and other professional services with funds provided by a $340,000 short-term interfund loan. Management plans to correct this deficit during 2002.

(3) CASH AND INVESTMENTS

The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to $100,000. All deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington. The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool. In the case of a loss by any public depository in the State, each public depository is liable for an amount up to 11 percent of its public deposits. Provisions of RCW 39.58.060 authorize the PDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss. Therefore, PDPC protection is of the nature of collateral, not of insurance.

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold most of the City's investments in the City's name. These investments are classified risk category 1. In some cases the trust department of the City's depository bank holds City investments in the City's name. These investments are classified risk category 2. Certain investments are uninsured and held by the trust department of the City's agent in the agent's name. These are classified risk category 3. The City currently has no investments in categories 2 and 3.

Table 3-1 Investments by Risk Category and Type (In Thousands)

	Treasury Residual Investments	Fair Value Securities Held for Dedicated Funds	Employees' Retirement System Investments	Carrying Amount
CATEGORY 1 INVESTMENTS				
Commercial Paper	$ 28,797	$ 62,010	$ -	$ 90,807
Treasuries	25,818	-	254,642	280,460
Agencies	583,898	115,465	-	699,363
Repurchase Agreements	2,991	4,900	-	7,891
Foreign Government Bonds	-	-	35	35
Corporate Bonds	-	-	98,146	98,146
Common Stock	-	-	541,643	541,643
International Stock	-	-	252,819	252,819
Total Category 1 Investments	641,504	182,375	1,147,285	1,971,164
INVESTMENTS NOT SUBJECT TO CREDIT RISK				
Mortgages	-	-	99	99
Realty Equities	-	-	75,251	75,251
Venture Capital	-	-	87,596	87,596
Short-Term Investment Funds	-	-	176,636	176,636
Total Investments Not Subject to Credit Risk	-	-	339,582	339,582
TOTAL INVESTMENTS	$ 641,504	$ 182,375	$ 1,486,867	$ 2,310,746

Securities Lending Transactions

The following table represents the balances relating to securities lending transactions of the Seattle City Employees' Retirement System as of December 31, 2001. The system had no credit risk.

Table 3-2 Securities Lent and Collateral (In Thousands)

Type of Securities Lent	2001 Fair Value of Securities Lent	2001 Collateral
U.S. Government and Agencies	$ 96,607	$ 98,160
U.S. Corporate Fixed Income	5,374	5,475
U.S. Equities	14,823	15,930
Non-U.S. Equities	618	651
TOTAL SECURITIES	$ 117,422	$ 120,216

Reverse Repurchase Agreements

The City regularly enters into reverse repurchase agreements as part of its investment policies. These agreements are a sale of securities with a simultaneous agreement to repurchase them at a future date at the same price plus a contracted rate of interest. The fair value of the securities underlying the agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The City has no reverse repurchase agreements at year-end.

Composition of Cash and Investments

Table 3-3 Cash and Investments (In Thousands)

COMBINED BALANCE SHEET (FROM EXHIBIT 1)		
Cash and Equity in Pooled Investments:		
Current Assets (Nonrestricted)	$ 454,252	
Restricted:		
Customer, Vendor, and Other Deposits	8,272	
Revenue Bond Reserve Accounts	77,395	
Construction Accounts	101,324	
Total Cash and Equity in Pooled Investments		$ 641,243
Investments:		
Current Assets (Nonrestricted)	1,523,002	
Restricted:		
Bond Proceeds/Construction Fund	146,134	
Total Investments		1,669,136
Cash with Fiscal Agent		367
TOTAL - DECEMBER 31, 2001		$ 2,310,746
COMPOSITION		
Cash and Investments		$ 2,296,215
Cash with Fiscal Agent		367
Trustee Accounts:		
Municipal Courts		801
Retainage on Public Works Contracts in Escrow		5,091
Customer, Vendor, and Other Deposits		8,272
TOTAL CASH AND INVESTMENTS		$ 2,310,746

The City recorded the net increase (decrease) in the fair value of investments at December 31, 2001 and 2000, as a component of interest income, summarized as follows.

Table 3-4 Increase (Decrease) in Fair Value of Investments (In Thousands)

	2001	2000
Realized Interest Income	$ 40,264	$ 42,487
Net Increase (Decrease) in the Fair Value of Investments	6,749	8,452
TOTALS	$ 47,013	$ 50,939

(4) RECEIVABLES AND INTERFUND TRANSACTIONS

Table 4-1 Tax Revenues and Receivables (In Thousands)

	2001 Revenues	December 31 2001 Receivables
Property Taxes	$ 252,985	$ 5,870
General Business and Occupation Taxes	183,994	38,279
TOTALS	$ 436,979	$ 44,149

Taxing Powers and Limitations

State law limits the regular property tax rate for general City operations to $3.15 per $1,000 of assessed value. The City may levy an additional amount, up to $0.45, as a contribution to the Firemen's Pension Fund or for general municipal purposes under conditions spelled out in State law. State law also provides that the City's operating levy may not exceed 106 percent of the largest single levy of the past three years (plus an additional amount based on the value of new construction) without approval by a majority of the voters. The City levied $2.48 per $1,000 for general operations and Firemen's Pension Fund in 2001, applying the maximum percentage growth rate. In addition, the 2001 levy included $1.19 per $1,000 of assessed value for debt service and other voter-approved special levies. The total 2001 levy was $3.69 per $1,000 of assessed value.

Interfund Receivables, Payables, and Transfers

The following are the current interfund balances at December 31, 2001. The balances are net of eliminations for intrafund transactions.

Table 4-2 Due From and To Other Funds (In Thousands)

	Due From Other Funds	Due To Other Funds
General Fund	$ 11,128	$ 5,183
Special Revenue Funds		
Park and Recreation	4,732	1,381
Transportation	2,765	2,191
Library	105	206
Street Utility Repayment	1	340
SFMS Redevelopment	-	4
Seattle Center	318	484
Design, Construction, and Land Use	472	316
Human Services Operating	966	269
Low-Income Housing	186	319
Office of Housing	330	102
Housing and Community Development Revenue Sharing	13	545
Education and Development Services	284	73
Business Improvement Areas	3	-
Total Special Revenue Funds	10,175	6,230
Debt Service Funds		
General Bond Interest and Redemption	22	-
Interfund Notes Payable - LIDs	1	-
Local Improvement Guaranty	1	-
Total Debt Service Funds	24	-
Capital Projects Funds		
Transportation Bond	69	-
Libraries for All	411	120
Office Acquisition	241	57
Public Safety Facilities and Equipment	7	14
Low-Income Elderly and Handicapped Housing Development	70	-
Shoreline Park Improvement	29	117
City Facilities Renovation and Improvement	4	-
Zoo Project Construction	1	-
Capital Facilities Project	22	71
Conservation Futures	2	300
Open Space and Trails	11	319
Seattle Center and Parks Multipurpose Levy	987	2,464
Seattle Center Redevelopment/Parks Community Centers	10	1
Municipal Civic Center	495	2,460
South Police Station	38	111
Public Safety Information Technology	51	203
2001 Capital Facilities Bond	36	-
Total Capital Projects Funds	2,484	6,237

Table 4-2 Due From and To Other Funds (In Thousands) (Continued)

	Due From Other Funds	Due To Other Funds
Enterprise Funds		
Light	$ 1,101	$ 4,527
Water	1,655	2,896
Drainage and Wastewater	232	2,419
Solid Waste	324	1,238
Downtown Parking Garage	9	3
Total Enterprise Funds	3,321	11,083
Internal Service Funds		
Executive Services	4,390	1,288
Information Technology	2,493	522
Engineering Services	288	1,550
Total Internal Service Funds	7,171	3,360
Fiduciary Funds		
Pension Trust Funds		
Employees' Retirement	464	569
Firemen's Pension	1	1
Police Relief and Pension	-	36
	465	606
Nonexpendable Trust Funds		
H. H. Dearborn	1	-
S. L. Denny	1	-
Beach Maintenance Trust	10	18
	12	18
Expendable Trust Funds		
General Trust	14	399
Municipal Arts	1,566	54
General Donations and Gift Trust	270	1,267
	1,850	1,720
Agency Funds		
Payroll Withholding	515	63
SHA Bond Servicing	-	6
Salary	3	4
Utility Clearing	2	-
Residual Cash Investment	65	2,705
	585	2,778
Total Fiduciary Funds	2,912	5,122
TOTALS	$ 37,215	$ 37,215

Table 4-3 Advances and Loans To and From Other Funds (In Thousands)

	Advances and Loans To Other Funds	Advances and Loans From Other Funds
General Fund	$ 45,401	$ -
Capital Projects Funds		
Capital Facilities Project	-	5,200
Municipal Civic Center	70,000	-
Enterprise Funds		
Light	-	100,000
Solid Waste	-	3,001
Internal Service Funds		
Engineering Services	-	7,200
TOTALS	$ 115,401	$ 115,401

Table 4-4 Operating Transfers In and Out (In Thousands)

	Operating Transfers In	Operating Transfers Out
General Fund	$ 4,193	$ 244,695
Special Revenue Funds		
Park and Recreation	37,992	2
Transportation	50,066	423
Library	33,495	-
Initiative 53 Planning	6,000	-
Seattle Center	9,537	7,552
Design, Construction, and Land Use	6,774	25
Human Services Operating	25,387	-
Low-Income Housing	841	-
Office of Housing	544	-
Total Special Revenue Funds	170,636	8,002
Debt Service Funds		
General Bond Interest and Redemption	47,844	-
Capital Projects Funds		
Transportation Bond	-	8,540
Office Acquisition	-	500
West Police Precinct and Communications Center	58	-
Conservation Futures	2	-
Open Space and Trails	-	203
Concert Hall Project	-	838
Seattle Center and Parks Multipurpose Levy	101	3,472
Seattle Center Redevelopment/Parks Community Centers	554	14
Municipal Civic Center	2,800	2,400
Total Capital Projects Funds	3,515	15,967

Table 4-4 Operating Transfers In and Out (In Thousands) (Continued)

	Operating Transfers In	Operating Transfers Out
Enterprise Funds		
Light	$ 1,900	$ -
Solid Waste	1,144	-
Downtown Parking Garage	-	460
Total Enterprise Funds	3,044	460
Internal Service Funds		
Executive Services	24,456	3,070
Information Technology	6,490	-
Total Internal Service Funds	30,946	3,070
Fiduciary Funds		
Pension Trust Funds		
Employees' Retirement	-	2
Firemen's Pension	450	-
Police Relief and Pension	13,393	2,300
	13,843	2,302
Nonexpendable Trust Funds		
H. H. Dearborn	-	15
Beach Maintenance Trust	-	17
	-	32
Expendable Trust Funds		
General Trust	107	-
General Donations and Gift Trust	400	-
	507	-
Total Fiduciary Funds	14,350	2,334
TOTALS	$ 274,528	$ 274,528

(5) PROPERTY, PLANT, AND EQUIPMENT

Table 5-1 Changes in General Fixed Assets (In Thousands)

	Balance January 1	Additions	Deletions	Balance December 31
Land	$ 207,520	$ 4,082	$ 1,109	$ 210,493
Buildings	641,447	6,026	537	646,936
Improvements Other Than Buildings	229,180	30,022	18,280	240,922
Equipment	24,284	1,807	1,080	25,011
Construction in Progress	112,818	160,686	41,570	231,934
TOTALS	$ 1,215,249	$ 202,623	$ 62,576	$ 1,355,296

Table 5-2 Proprietary Funds Property, Plant, and Equipment (In Thousands)

	Enterprise Funds	Internal Service Funds	Total
Land and Land Rights	$ 49,607	$ 86	$ 49,693
Plant in Service, Excluding Land	3,284,392	-	3,284,392
Property Held for Future Use, Net	9,866	-	9,866
Machine and Equipment	-	171,340	171,340
Construction in Progress	367,219	3,102	370,321
	3,711,084	174,528	3,885,612
Less Accumulated Depreciation	(1,169,757)	(100,470)	(1,270,227)
TOTALS - DECEMBER 31, 2001	$ 2,541,327	$ 74,058	$ 2,615,385

For commitments on capital improvement programs, see Note 13.

(6) COMPENSATED ABSENCES

Governmental Funds

Unpaid compensated absences associated with governmental fund operations of $44.4 million and $39.0 million at December 31, 2001 and 2000, respectively, have been recorded in the General Long-Term Debt Account Group. These amounts include unpaid holiday, compensatory, merit, and furlough time of $8.6 million and $8.0 million at the end of 2001 and 2000, respectively; accumulated unpaid vacation pay of $28.3 million and $25.6 million at the end of 2001 and 2000, respectively; and the balance for sick leave which was estimated based on the termination method.

Proprietary Funds

Unpaid compensated absences for the proprietary and pension trust funds were $22.0 million and $19.5 million on December 31, 2001 and 2000, respectively, as follows:

Table 6-1 Compensated Absences in Proprietary and Pension Trust Funds (In Thousands)

	2001	2000
Enterprise Funds		
Light	$ 10,211	$ 9,449
Water	3,241	2,753
Drainage and Wastewater	1,620	1,311
Solid Waste	1,037	1,145
Internal Service Funds		
Executive Services	4,138	3,464
Information Technology	1,000	800
Engineering Services	583	421
Pension Trust Funds		
Employees' Retirement	52	43
Firemen's Pension	61	57
Police Relief and Pension	62	57
TOTALS	$ 22,005	$ 19,500

(7) LEASES

Capital Leases

The City leases certain office equipment under various capital lease agreements. The City's capital lease obligations and the related assets were recorded in the appropriate funds and account groups. The net capital lease assets shown below reflect those continuing to be financed through capital leases. The minimum capital lease payments reflect the remaining capital obligations on these assets.

Table 7-1 Capital Leases (In Thousands)

Net Capital Lease Assets	General Fixed Assets Account Group
Machinery and Equipment	$ 362
Less Accumulated Depreciation	-
DECEMBER 31, 2001	$ 362

Minimum Capital Lease Payments	General Long-Term Debt Account Group
2002	$ 91
2003	8
Total Minimum Lease Payments	99
Less Interest	(5)
PRINCIPAL	$ 94

Operating Leases

Executive Services

The City has operating lease commitments for both real and personal property. Most leases for real property are maintained for a duration of three years and are renewable at the end of the lease period.

Table 7-2 Executive Services Operating Lease Commitments (In Thousands)

Year Ending December 31	Minimum Payments
2002	$ 6,148
2003	5,480
2004	4,601
2005	4,058
2006	3,966
TOTAL	$ 24,253

City Light

In December 1994 the City entered into an agreement on behalf of the Utility for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Utility's lessor. The Utility also has two other long-term operating leases for smaller facilities used for office and storage purposes. Expense under the leases totaled $3.3 million and $3.5 million in 2001 and 2000, respectively.

Minimum payments under the lease are:

Table 7-3 City Light Operating Lease Commitments (In Thousands)

Year Ending December 31	Minimum Payments
2002	$ 3,516
2003	3,488
2004	3,361
2005	3,372
2006	281
Thereafter	-
TOTAL	$ 14,018

Lease Revenues

Executive Services collects occupancy charges from the various tenants occupying real property owned or leased by the City. These tenants include other City departments, social service agencies, and private businesses. Social service agencies frequently pay occupancy charges at a reduced rate in consideration of offsetting benefits accruing to the City as a result of the services they provide.

Table 7-4 Major Sources of Rental Income on Real Property Managed by Executive Services

	2001
Non-City Property Subleased to City Departments	$ 7.1 million
City-Owned Property Occupied by City Departments	16.5 million
City-Owned Property Leased to Non-City Tenants	19.1 million

The amounts in the above table include the following:

> The City purchased and became the owner of the Key Tower Building in 1996. In 2001 the gross rental revenues recognized in the General Fund amounted to $18.7 million. Of this amount, $4.0 million relates to City department tenants.
>
> Beginning in 1996 the new Police Support Facility has provided rental space for tenants. The gross rental revenues recognized in 2001 in the General Fund amounted to $1.6 million.

Additionally, in 2001 the City recognized $5.2 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place. The City obtained a beneficial transfer of ownership of the garage financed by the $73.8 million limited tax general obligation bonds issued in 1998 for this purpose.

The Seattle Park Garage acquired in March 2000 has $1.7 million of parking revenues recognized in 2001 in the Executive Services Operating Fund, an internal service fund.

(8) LONG-TERM DEBT

Table 8-1 Changes in Long-Term Debt (In Thousands)

	General Long-Term Debt			Proprietary Fund Debt			
	General Obligation Bonds	Notes and Contracts	Other Liabilities	General Obligation Bonds	Revenue Bonds and Anticipation Notes	Notes and Others	Total Debt
Balance - January 1, 2001	$ 613,393	$ 22,426 [b]	$ 89,700 [c]	$ 76,754	$ 1,850,047	$ 21,499	$ 2,673,819
Additions:							
Bonds	124,475	-	-	5,285	616,905	-	746,665
Revenue anticipation notes	-	-	-	-	182,210	-	182,210
Other notes	-	669	-	-	-	-	669
Compensated absences	-	-	47,982	-	-	-	47,982
Claims payable [a]	-	-	98,421	-	-	2,125	100,546
Arbitrage rebate liability	-	-	759	-	-	-	759
Environmental liability - Light and Drainage and Wastewater	-	-	-	-	-	2,542	2,542
Payments and deductions:							
Bonds	(36,761)	-	-	(822)	(161,855)	-	(199,438)
Notes	-	(1,302)	-	-	-	(134)	(1,436)
Capital leases	-	(60)	-	-	-	-	(60)
Compensated absences	-	-	(42,652)	-	-	-	(42,652)
Claims payable	-	-	(89,434)	-	-	(6,133)	(95,567)
Arbitrage rebate liability	-	-	(271)	-	-	-	(271)
Environmental Liability - Water and Drainage and Wastewater	-	-	-	-	-	(813)	(813)
BALANCE - DECEMBER 31, 2001	$ 701,107	$ 21,733	$ 104,505	$ 81,217	$ 2,487,307	$ 19,086	$ 3,414,955

[a] At discounted present value. Refer to Note 14, Table 14-1.

[b] Restated. See Table 8-4.

[c] Restated. See Table 8-5.

Amount Available for Debt Service

Fund balances have been reserved for debt service as follows:

Table 8-2 Fund Balances Reserved for General Obligation Debt Service (In Thousands)

General Fund - Judgments and Claims	$ 5,252
General Fund - Health Care	1,846
Debt Service Funds	11,550
TOTAL FUND BALANCES RESERVED FOR GENERAL OBLIGATION DEBT SERVICE	$ 18,648

`

General Obligation Bonds

On August 21, 2001, the City issued $129.76 million in Limited Tax General Obligation Bonds with interest rates ranging from 3.5 to 5.375 percent and which mature serially from August 1, 2002, through August 1, 2031. The proceeds of the bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Justice Center, City Hall, South Police Precincts, Training Facilities, Public Safety and Miscellaneous Information Technology, Ballard Civic Center, South Lake Union Transportation Improvements, Golf Course, and Concert Hall Amplification. Part of the bonds also refinanced the $5 million 1998 Concert Hall bonds due on September 1, 2001.

Table 8-3 General Obligation Bonds (In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2001	Redemptions To Date [a]	Bonds Outstanding December 31
Limited Tax General Obligation (LTGO) Bonds - Non-Voted							
Housing, 1991	01/14/91	01/01/92-01	8.363 %	$ 2,700	$ 375	$ 2,700	$ -
Refunding-Historic Buildings, 1992	04/01/92	03/01/99-17	6.526	33,435	1,050	2,965	30,470
Fire Apparatus, 1993	02/01/93	07/01/93-05	4.637	785	65	500	285
Refunding-Westlake, 1993	02/01/93	07/01/93-07	4.927	6,635	615	2,280	4,355
Seattle Center Coliseum, 1994	03/17/94	10/01/97-14	7.065	73,400	2,780	12,330	61,070
Seattle Community Center, Fire Apparatus, Police Equipment, 1994	06/09/94	12/01/95-04	4.550	15,850	105	15,500	350
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995	12/28/95	07/01/96-15	5.122	28,670	2,025	10,515	18,155
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	-	-	97,740
Various Purpose-Key Tower, Police Support Facility, 1996 Series B	08/01/96	01/15/97-04	7.235	16,790	2,670	8,315	8,475
Various Purpose-Key Tower, Police Support Facility, 1996 Series C	08/28/96	01/15/20-26	5.273 [b]	40,520 [c]	-	-	40,520
Various Purpose-Key Tower, Police Support Facility, 1996 Series D	10/06/99	01/15/23-24	3.893 [b]	17,000 [c]	-	-	17,000
Various Purpose-Street Utility, Public Access Channel, Fiber Optic, 1996 Series E	12/19/96	10/01/97-03	4.196	14,685	275	14,335	350
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A	02/06/97	08/01/97-17	5.199	26,670	1,480	5,775	20,895
SFMS Redevelopment, 1997 Series B	10/16/97	08/01/98-04	4.334	7,725	1,090	4,170	3,555
Refunding-Various LTGO Bonds, 1998 Series B	03/17/98	09/01/98-12	4.493	43,710	3,250	11,865	31,845
Summit, 1998 Series C	08/26/98	08/01/99-04	4.105	6,210	1,010	2,925	3,285
Concert Hall, 1998 Series D	08/26/98	09/01/01	4.076	5,000	5,000	5,000	-
Deferred Interest Parking Garage, 1998 Series E	11/12/98	12/15/01-14	4.714	13,042	18	18	13,024 [d]
Parking Garage, 1998 Series F	11/12/98	12/15/14-28	5.148	60,805	-	-	60,805
Various Purpose-Civic Center, Galer St, 1999 Series B	10/19/99	12/01/00-28	5.677	85,500	3,900	7,095	78,405
Various Purpose-Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	-	-	129,760
Total Limited Tax General Obligation Bonds				726,632	25,708	106,288	620,344
Unlimited Tax General Obligation (UTGO) Bonds - Voted							
Fire Station/Shops, 1968 Series 1	10/01/68	10/01/70-08	4.726	1,700	65	1,150	550
Sewer Improvement, 1968 Series 1	10/01/68	10/01/70-08	4.726	7,000	270	4,740	2,260
Refunding-Low Income Housing, 1993	02/01/93	06/01/93-07	4.874	43,420	3,445	17,710	25,710
Refunding-Various UTGO Bonds, 1998 Series A	03/17/98	09/01/98-17	4.470	53,865	4,410	15,080	38,785
Library Facilities, 1999 Series A	07/01/99	12/01/00-18	5.135	100,000	3,685	5,325	94,675
Total Unlimited Tax General Obligation Bonds				205,985	11,875	44,005	161,980
TOTAL GENERAL OBLIGATION BONDS				$ 932,617	$ 37,583	$ 150,293	$ 782,324

[a] Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

[b] Variable-rate bonds - average life-to-date rate through December 31, 2001.

[c] $17 million of the original $57.52 million taxable 1996C bonds were converted to nontaxable 1996D bonds on October 6, 1999.

[d] The accreted value of the outstanding bonds as of December 31, 2001, is $15,007,920.

Table 8-4 Leases, Notes, and Contracts Included in General Long-Term Debt (In Thousands)

	2001 Beginning Balance	Additions And Draws	Principal Retirements	2001 Ending Balance
Capital Leases	$ 154 [a]	$ -	$ 60	$ 94
Notes and Contracts	22,272 [b]	669	1,302	21,639
TOTAL LEASES, NOTES, AND CONTRACTS	$ 22,426	$ 669	$ 1,362	$ 21,733

[a] Restated. $63 inadvertently included in 2000 for 21 copiers reported by Library that did not qualify according to the City's asset capitalization threshold amount. In addition, $140 reported by Police in 2000 as a 1999 transaction was reported as addition in 2000 rather than a restatement of beginning balance in the 2000 CAFR.

[b] Restated for $99 draws in 2001 included as 2000 and net of overstatement of payment by $10 in 2000 by Seattle Transportation.

Table 8-5 Other Liabilities Included in General Long-Term Debt (In Thousands)

	2001 Beginning Balance	Additions	Deductions	2001 Ending Balance
Compensated Absences	$ 39,093 [c]	$ 47,982	$ 42,652	$ 44,423
Workers' Compensation	12,151	8,509	7,356	13,304
Judgments and Claims	31,346	19,797	13,950	37,193
Health Care Claims	5,455	70,115	68,128	7,442
Arbitrage Rebate Liability	1,655	759	271	2,143
TOTAL OTHER LIABILITIES	$ 89,700	$ 147,162	$ 132,357	$ 104,505

[c] Restated to include Merit Leave.

Table 8-6 Annual Requirements to Amortize Outstanding General Long-Term Debt (In Thousands)

Years Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Leases, Notes, and Contracts Principal	Leases, Notes, and Contracts Interest	Total Requirements Principal	Total Requirements Interest
2002	$ 42,040	$ 42,176	$ 1,654	$ 526	$ 43,694	$ 42,702
2003	38,278	40,090	1,574	484	39,852	40,574
2004	39,723	38,094	1,567	446	41,290	38,540
2005	33,280	36,196	1,567	409	34,847	36,605
2006	33,911	34,612	1,567	371	35,478	34,983
Thereafter	595,092	328,689	13,804	1,905	608,896	330,594
	$ 782,324	$ 519,857	$ 21,733	$ 4,141	804,057	523,998
Less general obligation bonds recognized in proprietary funds:						
Enterprise Funds					(73,829)	(71,575)
Internal Service Funds					(7,388)	(1,173)
Estimated liability for compensated absences					44,423	-
Estimated liability for workers' compensation					13,304	-
Estimated liability for judgments and claims					37,193	-
Estimated liability for health care					7,442	-
Estimated liability for arbitrage rebate					2,143	-
TOTAL GENERAL LONG-TERM DEBT OUTSTANDING					$ 827,345	$ 451,250

Proprietary Fund Long-Term Debt

CITY LIGHT

In March 2001 the City issued $503.7 million in Municipal Light and Power Improvements and Refunding Revenue Bonds that bear interest at rates ranging from 5 percent to 5.5 percent and mature serially from March 1, 2004 through 2026. Proceeds were used to finance certain capital improvements and conservation programs and to defease certain outstanding prior lien bonds. The refunding portion of the bonds refunded $99.27 million of the 1992A, $21.52 million of the 1993, $2.58 million of the 1994, and $1.77 million of the 1995A Municipal Light and Power Bonds. The aggregate total debt service on the refunded bonds requires a cash flow of $194.08 million, including $68.95 million in interest. The debt service on the refunding bonds requires a cash flow of $194.67 million including $70.07 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled ($0.3) million; and the aggregate economic gain totaled $5.13 million at net present value.

In March 2001 the City issued $182.2 million in Municipal Light and Power Revenue Anticipation Notes (RANs). $136.7 million of the RANs bear interest at a rate of 4.5 percent and $45.5 million bear interest at a rate of 5.25 percent. The RANs mature in March 2003 and are special limited obligations of the City payable from and secured by gross revenues of City Light. Proceeds were used to finance 2001 operating expenses.

In late December 2001 the City of Seattle authorized an interfund loan to City Light from the City's Consolidated (Residual) Cash Portfolio in an amount up to $110.0 million, of which $100.0 million was outstanding as of December 31, 2001. The purpose of the loan is for working capital and is due on or before March 31, 2003. The interest rate for the loan is equal to the rate of return earned by the City's Consolidated (Residual) Cash Portfolio. For December 2001 the rate of return was 5.341 percent. The $100.0 million is shown as Advances from Other Funds. See also Note 4, Table 4-3.

WATER

In November 2001 the City issued $52.525 million in Water System Revenue Bonds with varying annual and term principal payments due beginning in 2002 and ending in 2031, with interest rates ranging from 4.5 percent to 5 percent. Proceeds of the issuance are used to finance certain capital improvement projects and conservation programs for the Utility.

DRAINAGE AND WASTEWATER

In June 2001 the City issued $60.68 million in Drainage and Wastewater Revenue Bonds with varying annual and term principal payments beginning in 2002 and ending in 2031, with annual interest rates ranging from 4.25 percent to 5.25 percent. Proceeds of the issuance are used to finance certain capital improvements and certain additions to the Drainage and Wastewater System and other costs associated with bond issuance.

SOLID WASTE

At December 31, 2001, Solid Waste had an interfund advance of $3.0 million for working capital requirements.

Table 8-7 Revenue Bonds and Revenue Anticipation Notes (In Thousands)

Name of Issue	Issuance Date	Maturity Dates	Effective Interest Rates [a]	Bond Issuance	Redemptions 2001	Redemptions To Date [b]	Bonds Outstanding December 31
Municipal Light and Power (ML&P) Bonds							
1990 Subordinate Lien	11/27/90	11/01/96-15	2.75-5.25	$ 25,000	$ 900	$ 4,300	$ 20,700
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	2.20-6.00	25,000	-	-	25,000
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	2.60-6.00	20,000	700	1,700	18,300
1992 Parity, Series A, Refunding	09/02/92	08/01/97-17	5.967	103,270	99,270	103,270	-
1992 Parity, Series B	09/02/92	08/01/93-10	5.706	75,730	3,740	27,395	48,335
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	27,620	216,220	237,135
1993 Subordinate Lien	11/17/93	11/01/99-18	2.20-6.00	22,000	800	2,400	19,600
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	2,575	105,615	9,385
1995 Parity, Series A	09/28/95	09/01/99-20	5.633	60,000	1,770	3,335	56,665
1995 Parity, Series B	10/16/95	09/01/98-05	4.446	2,305	-	1,608	697
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	-	-	30,000
1996 Subordinate Lien	12/11/96	06/01/02-21	2.15-5.75	19,800	-	-	19,800
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	-	-	30,000
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	655	1,135	103,515
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	-	-	90,000
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	-	-	158,000
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	-	-	98,830
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	-	-	503,700
Total Light Bonds				1,936,640	138,030	466,978	1,469,662
Municipal Water Bonds							
1993 Refunding, Parity	06/25/93	12/01/93-23	5.570	256,255	10,725	74,110	182,145
1995 Adjustable Rate	09/20/95	09/01/00-25	2.560	45,000	1,100	2,100	42,900
1997 Parity	04/08/97	08/01/97-17	5.720	53,000	975	4,000	49,000
1998 Parity	07/07/98	10/01/99-27	5.110	80,000	1,435	4,140	75,860
1999 Parity	06/23/99	03/01/00-29	5.317	100,000	1,635	3,215	96,785
1999 Parity, Series B	10/23/99	07/01/01-29	5.884	110,000	1,725	1,725	108,275
2001 Parity	11/20/01	11/01/05-31	5.000	52,525	-	-	52,525
Total Water Bonds				696,780	17,595	89,290	607,490
Municipal Sewer (Drainage and Wastewater) Bonds							
1971, Series 1	11/01/71	11/01/72-01	5.019	4,500	325	4,500	-
1992 (Issued January 1993)	01/01/93	12/01/93-22	6.060	21,725	445	3,540	18,185
1995 Improvement/Refunding	12/28/95	12/01/96-25	5.309	40,390	935	3,620	36,770
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	420	1,650	22,520
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	855	1,430	53,570
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	-	-	60,680
Total Drainage and Wastewater Bonds				206,465	2,980	14,740	191,725
Solid Waste Bonds							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	3,070	9,835	31,065
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	180	345	5,155
Total Solid Waste Bonds				46,400	3,250	10,180	36,220
TOTAL UTILITY REVENUE BONDS				2,886,285	161,855	581,188	2,305,097
Municipal Light and Power (ML&P) Anticipation Notes							
2001	04/03/01	03/28/03	3.840	182,210	-	-	182,210
TOTAL UTILITY REVENUE BONDS AND ANTICIPATION NOTES				$ 3,068,495	$ 161,855	$ 581,188	$ 2,487,307

[a] For the ML&P bonds, interest rates for Subordinate Lien bonds are the life-to-date actual low and high rates; adjustable rate bonds reflect average life-to-date rates through December 31, 2001; all others are true interest cost rates.

[b] Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

Table 8-8 Notes, Contracts, Leases, and Claims Included As Proprietary Fund Debt (In Thousands)

	2001 Beginning Balance	2001 Additions	2001 Retirements/ Deductions	2001 Ending Balance
City Light				
Claims Payable [a]	$ 6,449 [b]	$ 1,470 [c]	$ 2,665	$ 5,254
Environmental Liability	1,575 [b]	1,262	-	2,837
Total City Light	8,024	2,732	2,665	8,091
Water Utility				
Public Works Trust Loan	1,537	-	118	1,419
Claims Payable [a]	2,902	-	1,015	1,887
Environmental Liability	1,971	-	671	1,300
Total Water Department	6,410	-	1,804	4,606
Drainage and Wastewater Utility				
Public Works Trust Loan	66	-	9	57
NOAA Settlement Notes	1,023	-	-	1,023
Claims Payable [a]	4,315	-	1,892	2,423
Environmental Liability	-	1,280	142	1,138
Total Drainage and Wastewater Utility	5,404	1,280	2,043	4,641
Solid Waste Utility				
Claims Payable [a]	430	253 [c]	183	500
Executive Services				
Greenwood Center Note	14	-	7	7
Claims Payable [a]	1,085 [d]	260 [c]	338	1,007
Total Executive Services	1,099	260	345	1,014
Information Technology				
Claims Payable [a]	62 [d]	56 [c]	40	78
Engineering Services				
Claims Payable [a]	70	86 [c]	-	156
TOTAL NOTES, CONTRACTS, LEASES, AND CLAIMS	$ 21,499	$ 4,667	$ 7,080	$ 19,086

[a] At discounted present value. Refer to Note 14, Table 14-1.

[b] Restated. $76 was reclassified as belonging to Environmental Liability.

[c] Net of incurred claims and changes in estimates.

[d] $62 belonging to Information Technology (IT) is shown separately because IT became a separate Internal Service Fund department.

Table 8-9 Annual Requirements to Amortize Outstanding Revenue Bonds (In Thousands)

Years Ending December 31	Light Principal [a]	Light Interest	Light Total Requirements	Water Principal	Water Interest	Water Total Requirements
2002	$ 41,651	$ 83,635	$ 125,286	$ 18,360	$ 31,561	$ 49,921
2003	225,045	77,848	302,893	19,205	30,682	49,887
2004	51,765	71,477	123,242	20,135	29,748	49,883
2005	54,621	68,925	123,546	17,075	28,728	45,803
2006	57,525	66,388	123,913	16,885	27,868	44,753
Thereafter	1,221,265	609,426	1,830,691	515,830	342,848	858,678
	$ 1,651,872	$ 977,699	$ 2,629,571	$ 607,490	$ 491,435	$ 1,098,925

Years Ending December 31	Drainage and Wastewater Principal	Drainage and Wastewater Interest	Drainage and Wastewater Total Requirements	Solid Waste Principal	Solid Waste Interest	Solid Waste Total Requirements
2002	$ 3,780	$ 10,045	$ 13,825	$ 3,405	$ 1,945	$ 5,350
2003	3,945	9,871	13,816	3,585	1,767	5,352
2004	4,125	9,688	13,813	3,770	1,580	5,350
2005	4,305	9,494	13,799	3,965	1,382	5,347
2006	4,515	9,289	13,804	4,170	1,175	5,345
Thereafter	171,055	122,547	293,602	17,325	3,306	20,631
	$ 191,725	$ 170,934	$ 362,659	$ 36,220	$ 11,155	$ 47,375

[a] Includes Municipal Light and Power Anticipation Notes.

Table 8-10 Annual Requirements to Amortize Proprietary Fund Notes, Leases, and Contracts (In Thousands)

Year Ending December 31	Executive Services Other Notes Principal	Executive Services Other Notes Interest	Water Public Works Trust Loan Principal	Water Public Works Trust Loan Interest	Drainage & Wastewater Public Works Trust Loan Principal	Drainage & Wastewater Public Works Trust Loan Interest	Drainage & Wastewater NOAA Settlement Principal [b]	Drainage & Wastewater NOAA Settlement Interest
2002	$ 7	$ -	$ 118	$ 14	$ 9	$ 2	$ 1,023	$ -
2003	-	-	118	13	10	1	-	-
2004	-	-	118	12	9	1	-	-
2005	-	-	118	11	10	1	-	-
2006	-	-	118	11	9	1	-	-
Thereafter	-	-	829	31	10	-	-	-
	$ 7	$ -	$ 1,419	$ 92	$ 57	$ 6	$ 1,023	$ -

[b] Includes budgeted in-kind services.

Table 8-11 Revenue Bond Reserve Requirements (In Thousands)

	Light	Water	Drainage and Wastewater	Solid Waste
December 31, 2001, Balance at Fair Value	$ 70,993	N/A	$ 6,402	N/A
Maximum Required	105,575	N/A	9,599	N/A
Must Be Funded by	2006 [a]	FUNDED [b]	FUNDED [c]	FUNDED [d]

[a] The City Light Utility is required by Ordinance 120274 to maintain, within five years of sale, a reserve fund for parity bond issues in an amount equal to the lesser of (a) the maximum annual debt service on all parity bonds then outstanding or (b) the maximum amount permitted by the Internal Revenue Code (IRC) of 1986 as amended as a "reasonably required reserve or replacement fund." Upon issuance of the March 2001 bonds, the maximum annual debt service on parity bonds increased from $92.06 million to $115.95 million. The IRC's requirement increased from $77.34 million to $105.58 million.

[b] Water system revenue and refunding bonds contain certain financial covenants, the most significant of which requires the Utility to maintain adjusted net revenue of not less than 125 percent of annual debt service (See Table 8-12) and maintain a reserve to secure the payment of principal and interest equal to the lesser of the maximum annual debt service or 125 percent of the average annual debt service. The Utility has obtained a reserve insurance policy to meet its reserve requirements.

[c] Among other covenants, the Drainage and Wastewater Utility is required to maintain a bond reserve fund of not less than the maximum annual debt service requirement of both principal and interest on all bonds outstanding in any calendar year.

[d] The Solid Waste Utility has alternate security in the form of a credit agreement between an insurance company and the City. The credit agreement provides a line of credit for the full amount of its reserve requirement.

Table 8-12 Revenue Bond Debt Service Coverage

	Light	Water	Drainage and Wastewater	Solid Waste
Annual Requirement	- [e]	125%	125%	125%
Financial Policy Target	180%	170%	150%	150%
Available in 2001 [f]	142%	137%	260%	396%

[e] Prior to issuance of additional first-lien bonds for City Light, net revenue in any 12 consecutive months out of the most recent 24 months preceding delivery of the bonds must be equal to at least 125 percent of the maximum annual debt service on first-lien debt in any future year. City Light's bond ordinances require that rates be set to cover costs and do not specify a required annual coverage ratio.

[f] The available debt service coverage is based on the annual debt service requirement and the annual adjusted net revenues available for debt service.

Table 8-13 Deferred Charges Relating to Revenue Bond Refundings and Defeasance (In Thousands)

	Total To Be Amortized	Amortized 2001	Amortized Prior Years	Unamortized December 31
Municipal Light and Power				
1992	$ 4,554 [g]	$ 136	$ 3,259	$ 1,159
1993	49,446 [g]	1,259	27,482	20,705
1998B	11,171	497	1,489	9,185
2001	9,421	255	-	9,166
Municipal Water, 1993	13,428	653	5,977	6,798
Drainage and Wastewater, 1995	1,892	76	378	1,438
Solid Waste, 1999	2,164	206	395	1,563
TOTAL DEFERRED CHARGES	$ 92,076	$ 3,082	$ 38,980	$ 50,014

[g] Reduced by $2,337 and $1,887 for 1992 and 1993 respectively for refunded portions relating to 2001 refunding.

The charges related to revenue bond refunding are amortized over the life of the refunding bonds.

Table 8-14 Refunded/Defeased Bonds (In Thousands)

The following is a schedule of outstanding bonds that are either refunded or defeased. Cash and investments in U.S. government securities were placed in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, these assets and the corresponding liabilities are not reflected in the accompanying financial statements.

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2001	Defeased Outstanding December 31
General Obligation Bonds							
Limited Tax (Non-Voted)							
Public Safety Facilities/Equipment	01/15/91	08/01/91-11	6.412 %	$ 7,985	$ 2,625	$ 2,625	$ -
West Seattle Bridge, Refunding	07/01/91	10/01/96-05	6.635	7,065	5,915	5,915	-
Various Purpose, 1992	04/01/92	03/01/99-17	5.788	5,890	1,015	165	850
Capital Facilities, 1992	04/01/92	03/01/99-12	6.405	35,000	28,320	4,190	24,130
Revenue Bonds							
Municipal Light and Power							
1977 Parity	08/01/77	08/01/77-05	5.343	29,000	21,300	13,100	8,200
1992 Parity, Series A, Refunding	09/02/92	08/01/97-17	5.967	103,270	99,270	1,000	98,270
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	21,515	21,515	-
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	97,255	2,575	94,680
1995 Parity, Series A	09/28/95	09/01/99-20	5.633	60,000	1,770	1,770	-
TOTAL REFUNDED/DEFEASED BONDS				$ 816,565	$ 278,985	$ 52,855	$ 226,130

Arbitrage

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures), the City paid no rebate in 2000 and approximately $271,000 in 2001 on the City's general obligation bonds. The City paid no rebate in 2000 and approximately $24,000 in 2001 for Municipal Light and Power Revenue Bonds; none in 2000 and 2001 for Water System Revenue Bonds, Drainage and Wastewater Revenue Bonds, and Solid Waste Revenue Bonds. In 2001 the City received an arbitrage refund of $1.2 million on certain Municipal Light and Power Bonds. The City estimated and recognized as of the end of 2001 in the General Long-Term Debt Account Group an arbitrage rebate liability of approximately $2,142,700 on general obligation bonds and in the Light Fund's other current liabilities $439,950 on Municipal Light and Power Revenue Bonds. The City estimated zero arbitrage liability at December 31, 2001, on its Water System Revenue Bonds, Drainage and Wastewater Revenue Bonds, and Solid Waste Revenue Bonds.

(9) FUND EQUITY

The following schedule compares the total legally required encumbrance and other appropriation carryovers with the amounts reported in the balance sheet as reserved for encumbrances, capital improvements, continuing appropriations, debt service, endowments, and gifts.

Grant awards usually extend beyond the end of the fiscal year so any unspent budget amounts for grants at the end of the year are carried over to the following year. Funding for these grants comes from revenues that are anticipated to be received in the following years. For this reason it is not necessary to reserve part of the fund balance for the amount of the grants continuing appropriations.

In certain capital projects not all of the fund balances were appropriated. However, the total fund balances were reserved for capital improvements.

Additionally, some budget carryovers are not reported because either the fund balance is inadequate or the City Council plans to abandon the remaining budget.

Table 9-1 Reserved Fund Balances (In Thousands)

	Legally Required Carryovers			Reserved for Encumbrances, Capital Improvements, Continuing Appropriations, Debt Service, Endowments, and Gifts	
Governmental Funds	Outstanding Encumbrances	Continuing Appropriations	Total	Reported	Not Reported
Budgeted					
General	$ 16,936	$ 35,814	$ 52,750	$ 38,804	$ 13,946
Special Revenue					
Annually Budgeted/Operating	10,094	28,669	38,763	14,242	24,521
Non-Operating	28,806	27,717	56,523	71,982	(15,459)
Capital Projects	90,906	238,676	329,582	177,357	152,225
TOTAL BUDGETED	146,742	330,876	477,618	302,385	175,233
Nonbudgeted					
Debt Service	-	11,550	11,550	11,550	-
Fiduciary - Expendable Trust	1,171	-	1,171	1,171	-
TOTAL NONBUDGETED	1,171	11,550	12,721	12,721	-
TOTALS	$ 147,913	$ 342,426	$ 490,339	$ 315,106	$ 175,233

(10) SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's enterprise funds account for four utilities (Light, Water, Drainage and Wastewater, and Solid Waste) and a parking garage. Utility rates, including rates for utility services supplied to other City departments, are prescribed by City ordinances passed by the City Council. The utilities provide to and receive certain services from other departments and agencies of the City, including those normally considered to be general and administrative. The City charges the utilities for these services. The utilities must also pay a business and occupation tax to the City and are subject to regulation by the City and the State of Washington. Refer to the applicable notes and tables for general City and utility-specific disclosures regarding significant accounting policies; cash and investments; compensated absences; long-term debt; fund equity; pensions, deferred compensation, and other postemployment benefits; commitments; contingencies; reclassifications, restatements, prior-period adjustments, and changes in accounting principles; and subsequent events.

Table 10-1 Segment Information for Enterprise Funds (In Thousands)

	Light	Water	Drainage and Wastewater	Solid Waste	Downtown Parking Garage	Total
Operating Revenues	$ 627,586	$ 105,345	$ 136,238	$ 104,367	$ 5,243	$ 978,779
City Business and Occupation Taxes	30,649	7,157	13,104	13,210	11	64,131
Depreciation and Amortization	61,539	23,748	7,252	2,073	2,434	97,046
Net Operating Income (Loss)	(27,179)	18,998	3,887	772	881	(2,641)
Grant Income	13,396	5,471	(1,893)	299	-	17,273
Operating Transfers In	1,900	-	-	1,144	-	3,044
Operating Transfers Out	-	-	-	-	(460)	(460)
Net Income (Loss)	(73,341)	4,884	(2,198)	566	(3,216)	(73,305)
Retained Earnings	174,650	112,436	15,017	(424)	(8,617)	293,062
Net Working Capital	(14,645)	(15,656)	3,634	(5,712)	1,261	(31,118)
Property, Plant, and Equipment, Net	1,300,036	783,001	377,513	15,066	65,711	2,541,327
Deferred Power Costs	300,000	-	-	-	-	300,000
Capitalized Purchased Power Commitments	56,948	-	-	-	-	56,948
Deferred Landfill Closure Costs, Net	-	-	-	42,153	-	42,153
Deferred Conservation Costs, Net	97,180	10,897	-	-	-	108,077
Unamortized Bond Issue Costs, Net	4,103	4,659	1,675	316	-	10,753
Other Deferred Charges	53,428	24,033	9,055	7,877	293	94,686
Total Assets	2,210,962	885,797	466,049	81,146	67,998	3,711,952
Revenue Bonds, Net of Current Portion	1,583,203	577,187	184,588	32,027	-	2,377,005
General Obligation Bonds, Net	-	-	-	-	75,882	75,882
Landfill Liability Postclosure Costs, Net of Current	-	-	-	28,231	-	28,231

Deferred Power Costs

Due to poor water conditions in 2001, City Light was required to purchase large amounts of energy in the wholesale market in order to serve retail customers. Throughout the western region, prices in the wholesale market were at extraordinarily high levels through May 2001. In order to cover a portion of this substantial cash requirement, City Light incurred additional long-term debt. The Department issued $182.2 million in Revenue Anticipation Notes (RANs) in March 2001 and also borrowed $100 million from other City funds in December 2001. Power costs in the amount of $300.0 million incurred for short-term wholesale power purchases during 2001 will be recovered through rates over the next two years and possibly longer.

Deferred Conservation Costs

The City Council passed resolutions in 1984 and 1985 authorizing the debt financing and deferral of all programmatic conservation costs incurred. These resolutions were fully implemented by 1986. These costs are to be recovered through rates over twenty years.

LIGHT FUND

City Light is a public utility providing electric service in the greater Seattle metropolitan area and operates as one City department. Accounting and reporting policies include those based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC).

Separately issued financial statements may be obtained from Seattle City Light, 700 Fifth Avenue, Suite 3100, Seattle, WA 98104. (Telephone 206-684-3832, Internet email address fernando.estudillo@ci.seattle.wa.us).

SEATTLE PUBLIC UTILITIES

Three of the four City utilities are combined into the Seattle Public Utilities Department. These are the Water Utility, the Drainage and Wastewater Utility, and the Solid Waste Utility. Each of the three utilities is reported as a separate enterprise fund.

Separately issued financial statements for the three utilities may be obtained from the Seattle Public Utilities, 10th Floor Dexter Horton Building, 710 Second Avenue, Seattle, WA 98104. (Telephone 206-684-7646, Internet email address wai.leung@ci.seattle.wa.us).

Water Fund

The Water Fund provides water services in the greater Seattle metropolitan area under the direction of the Managing Director of Seattle Public Utilities. Water rates are set by ordinance. No charges are made to the City for water services for public fire protection.

Drainage and Wastewater Fund

The Drainage and Wastewater Fund provides drainage and wastewater services under the direction of the Managing Director of Seattle Public Utilities. By ordinance, the City charges a drainage service charge on all owners of property located within the City limits, except for those granted exemptions as stipulated in the ordinance. This service charge funds operation and maintenance of and improvements to the City's system of storm drainage facilities. This drainage service charge is included as a separate line in King County's property tax billings and is effective for the year in which the bill is sent.

Solid Waste Fund

The Solid Waste Fund provides solid waste collection and disposal services within the City under the direction of the Managing Director of Seattle Public Utilities. Charges for solid waste collection and disposal service are set by ordinance.

DOWNTOWN PARKING GARAGE

The Downtown Parking Garage provides for the operation of a parking garage located between Sixth and Seventh Avenues and Pine and Olive Streets in downtown Seattle, commonly known as "Pacific Place." Revenues received from the operations are used for operating expenses and for periodic debt service payments for the bonds issued for the development and construction of the garage.

(11) PENSIONS, DEFERRED COMPENSATION, AND OTHER POSTEMPLOYMENT BENEFITS

City of Seattle employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System (SCERS), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System. The first three plans are considered part of the City's reporting entity and are reported as pension trust funds, and LEOFF is administered by the State of Washington. The only postemployment benefits the City provides, other than death benefits, are medical benefits in the Firemen and Police plans.

Table 11-1 Retirement Plan Financial and Actuarial Data

	Employee Retirement	Firemen's Pension	Police Relief and Pension	LEOFF Plan I	LEOFF Plan II
Current Membership:					
Retirees/Beneficiaries Currently Receiving Benefits	4,733	1,042	842	7,780 [a]	143 [a]
Terminated Employees Entitled But Not Currently Receiving Benefits	1437	N/A	N/A	31 [a]	248 [a]
Current Active Members	8,674	127	130	243 [b]	2052 [b]
Contribution Rates:					
Plan Member	8.03%	N/A	N/A	0.00%	4.50%
City	8.03%	N/A	N/A	0.23%	2.93%
State	N/A	N/A	N/A	0.00%	1.80%
2001 City Required and Actual Contribution (In Thousands)	$32,527	$8,252	$7,415	$41	$4,799
2000 City Required and Actual Contribution (In Thousands)	$30,956	$8,434	$10,117	$665	$4,718
Actuarial Valuation Date	1/1/00	1/1/02	1/1/02	12/31/00	12/31/00
Actuarial Cost Method	Entry age	Projected unit credit	Projected unit credit	N/A	N/A
Amortization Method/Period	Level percent/ 30 years, open	Level dollar/ 16 years, closed	Level dollar/ 20 years, closed	N/A	N/A
Asset Valuation Method	Fair Value	Fair value	Fair value	Fair value	Fair value
Actuarial Assumptions:					
Inflation Rate (CPI)	4.00%	4.00%	4.00%	3.50%	3.50%
Investment Rate of Return	8.00%	7.00%	7.00%	8.00%	8.00%
Projected Salary Increases	4.50%	4.00%	4.00%	4.50%	4.50%
Postretirement Benefit Increases	0.67%	2.00% Minimum	2.00% Minimum	3.00%	3.00%

[a] Based on 2000 Report on the Washington Retirement Systems (figures shown are for Washington State).

[b] City of Seattle police officers and firemen who are current active members of LEOFF.

Trend data on funding progress and employer contributions for Seattle City Employees' Retirement System, Police Relief and Pension Fund, and Firemen's Pension Fund are presented in the Required Supplementary Information Section.

Seattle City Employees' Retirement System

The City and its covered employees contribute to the Seattle City Employees' Retirement System, a single-employer defined benefit public employee retirement system, established and administered by the City as provided in Seattle Municipal Code 4.36.

All City employees are eligible to participate in SCERS except uniformed Fire and Police personnel who are covered by the statewide LEOFF system administered by the Washington State Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in SCERS when these organizations were City of Seattle Departments were allowed to continue their memberships. SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2.00 percent multiplied by years of creditable service, multiplied by average salary based on the highest 24 consecutive months. The benefits are actuarially reduced for early retirement. City employees may retire at any age with 30 years of service, at age 52 or older with 20 to 29 years of service, at age 57 or older with 10 to 19 years of service, and at age 62 or older with five to 9 years of service. These benefit provisions and all other requirements are established by City ordinances.

Investments, including security lending information, are reported at fair value as shown in Note 3. No investment in any one corporation or organization exceeds five percent of net assets available for benefits. Less than five percent of plan assets were invested in derivative securities. All derivatives were high quality nonleveraged securities consisting of collateralized mortgage obligations (CMO), Treasury strips, convertible bonds, futures, options, etc. These derivatives cause little exposure to credit risk, market risk, or legal risk. Short-term investments are a collective trust that may include certificates of deposit, Treasury bills, and mutual funds. The venture capital investment category includes venture capital and hedge funds.

SCERS funding policy provides for periodic employee and employer contributions at actuarially determined rates expressed as percentages of annual covered payroll to accumulate sufficient assets to pay benefits when due. The contribution rate for normal cost is determined using the entry-age actuarial cost funding method. Of the City's contribution, 5.50 percent of salary is for normal cost and the remainder, 2.53 percent, is available to fund the unfunded actuarial accrued liability, if any. As of January 1, 2000, the actuarial value of plan net assets was $1,582.7 million and the actuarial accrued liability was $1,403.1 million. The actuarial assets exceeded the actuarial accrued liability by 12.8 percent and the funding excess (i.e., negative unfunded actuarial accrued liability) was $179.6 million. The unfunded actuarial accrued liability will be redetermined as of January 1, 2002, after the completion of the next actuarial valuation. Based on the January 1, 2000, valuation, the actual employer contribution was $32.5 million and the net pension cost was $11.6 million; therefore, the City exceeded its actuarially determined contribution requirement by $48.1 million.

Authority to change benefits and contribution rates rests on the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee contribution rate. This is the reason why the City's contributions exceeded the Annual Required Contributions (ARC).

Separately issued financial statements may be obtained from Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104-1652 (Telephone 206-386-1292).

Firemen's Pension and Police Relief and Pension Funds

The Firemen's Pension and the Police Relief and Pension Funds were established by the City in compliance with requirements of the Revised Code of Washington (RCW) 41.20 and 41.18 for each city and municipality of the State.

Since the effective date of LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active firemen and police under the old City plan in excess of current LEOFF benefits. Generally, benefits under the LEOFF retirement benefit system are greater than or equal to the retirement benefits under the old City plan when payment begins. However, LEOFF retirement benefits increase with the consumer price index (CPI-Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. Due to this leveraging effect, projection of the City of Seattle's liabilities is especially sensitive to the difference between wage and CPI increase assumptions.

All uniformed fire fighters and police officers of the City who served before March 1, 1970, are participants of these pension funds; and those hired between March 1, 1970, and September 30, 1977, are eligible for a supplemental retirement benefit plus sick benefits under these plans. Eligible police officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death and disability pension benefits plus sick benefits for eligible active and retired employees. The postemployment healthcare portions of these plans in 2001 were $5.3 million for Firemen's and $6.2 million for Police.

Since these two pension plans were closed to new members effective October 1, 1977, the City did not need to adopt a plan to fund the actuarial liability but is paying benefits as they become due. Contributions are no longer required from the members or from the departments they represent. Under State law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to $0.45 per $1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the State tax on fire insurance premiums. Additional funding through operating transfers is provided by the General Fund to both pension funds as necessary. There are no securities held by the City for these pension funds, except for the Firemen's Pension actuarial account described below. No loans are provided by the funds to the City or other related parties.

In addition to pensions, these funds provide medical benefits in accordance with State statutes and City ordinances to active and retired members from the City. Currently 1,165 Fire and 932 Police retirees meet those eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for

Medicare. Postemployment medical benefits are financed on a pay-as-you-go basis and totaled $11.5 million in 2001 and $9.3 million in 2000 for the two pension funds.

In July 1994 the City adopted Ordinance 117216, which created a program to fully fund the actuarial pension liability for the Firemen's Pension Fund. Under this program the City will set aside actuarially determined annual amounts in order to pay any remaining pension liabilities by December 31, 2018. The first payment of $0.4 million was made in 1994. The total fund available under the program as of December 31, 2001, was $2.5 million. No similar program has been established for the Police Relief and Pension Fund.

The actuarial accrued liabilities based on December 31, 2001, valuation date were $99.3 million for Firemen's Pension and $89.3 million for Police Pension. The Firemen's Pension is scheduled to be fully funded by December 31, 2018, and Police Pension is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget and any benefit requirements exceeding the adopted budget are fully covered by supplemental appropriations. Total payments for pensions, disability, and death benefits for Firemen's Pension were $7.5 million in 2001 and 2000 and for Police Pension were $6.9 million in 2001 and $8.2 million in 2000.

These pension plans do not issue separate financial statements.

Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System

All fire fighters and law enforcement officers of the City of Seattle participate in the LEOFF system, a cost-sharing multiple-employer system established on March 1, 1970, by RCW 41.26. LEOFF is comprised of two separate defined benefit plans, Plan 1 and Plan II, administered by the Washington State Department of Retirement Systems (DRS). LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those joining after September 30, 1977, are Plan II members. LEOFF retirement benefits are financed by employer and employee contributions, investment earnings on those contributions, and a special funding situation where the State pays the remainder through State legislative appropriations. Contributions are put in a fund and accumulate during members' working careers and are paid out in benefits when they retire. Employee contributions to LEOFF accrue interest at a rate specified by DRS. During fiscal year 2001 the DRS-established rate on employee contributions was 5.50 percent compounded quarterly. Employees in LEOFF can elect to withdraw total employee contributions and interest earnings thereon upon termination. LEOFF retirement benefits are established in State statute and may be amended only by the State Legislature.

The basis for LEOFF contribution rate-setting process is contained in RCW 41.45. The rate setting process set in statute is based on the two-year biennial cycle that allows State and local employers to budget a stable percent of salaries for retirement benefits during the ensuing biennium. Actuarial valuations are conducted every year by the State Actuary's Office, and contribution rates are calculated and submitted to the Pension Funding Council for official adoption. DRS is required to charge the adopted rates unless the Legislature enacts changes requiring a rate increase or decrease. Contribution rates are expressed as percentages of pay. When these percentages are multiplied by active members' salaries and added to plan assets, the sum is expected to pay the projected cost of benefits. Because actual future costs are subject to some unknowns, such as inflation and investment return rates, arriving at a cost requires both statistical analysis and subjective decisions regarding economic and demographic assumptions. To value assets in a less volatile manner, a "smoothing" technique is used in the contribution rate-setting process. Beginning in 2000 investment gains and losses are recognized evenly over four years.

The results of the 2000 actuarial valuations do not show any unfunded liability for LEOFF. Historical trend information showing LEOFF progress in accumulating sufficient assets to pay benefits when due is presented in the Required Supplementary Information Section of the State of Washington's June 30, 2001, Comprehensive Annual Financial Report (http://www.ofm.wa.gov/cafr/2001/cafr01toc.htm).

LEOFF System benefits are vested after completion of five years of eligible service. Members are eligible to retire if they meet the criteria set forth under their respective plans:

LEOFF Plan I - Law enforcement and fire fighters who are LEOFF Plan 1 participants are eligible to retire with five years service at the age of 50. The benefit per year of service is calculated as a percent of average final salary as follows: 5 to 10 years is 1.00 percent, 10 to 20 years is 1.50 percent, and 20 or more years is 2.00 percent. The average final salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24-month salary within the last 10 years of service. Retirement benefits are fully indexed to the Seattle Consumer Price Index.

LEOFF Plan II - Law enforcement officers and fire fighters who are Plan II participants are eligible to retire at the age of 50 with 20 years of service or at the age of 53 with five years of service. Retirement benefits prior to age 53 are reduced 3.00 percent for each year that the benefit commences prior to age 53. The benefit is 2.00 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. Retirement benefits are indexed to the Seattle Consumer Price Index with a cap of 3.00 percent annually.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan. Under the plan, participants select investments from alternatives offered by the plan administrator, who is under contract with the City to manage the plan. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the plan and its administration.

Effective January 1, 1999, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries.

The City has little administrative involvement and does not perform the investing function for the plan. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the City employees' deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City starting January 1, 1999.

(12) JOINT VENTURES

Seattle-King County Department of Public Health

The Seattle-King County Department of Public Health is a combined City and County health department providing personal and environmental health services throughout the County. The divisions are: Administrative Services, Community Based Public Health Practice, Correctional & Rehabilitative Services, Environmental Health Services, Prevention, Alcohol-Tobacco-Other Drug Prevention & Community Health Services. King County is responsible for central administration of the Department, with the City directly responsible for policy and funding control over the Seattle services. Both jurisdictions share ongoing financial responsibility for funding the Department's administrative services and the City does not have an equity interest. The formula for determining each jurisdiction's share is based on the budgeted expenditures of their respective divisions or programs in relation to the total budget. The King County Executive and the Mayor jointly appoint the Director of Public Health for a four-year term. The County and City Councils confirm the appointment. The Director of Public Health may be removed for cause by the King County Executive after consultation with the Mayor.

Table 12-1 Joint Venture Financial Data - Seattle-King County Department of Public Health (In Thousands)

Year Ended December 31	2001 Unaudited	2000 Audited
Assets	$ 33,922	$ 38,936
Liabilities	30,206	32,712
Fund balance	3,716	6,224
Revenues	148,942	133,548
Expenditures	165,525	149,271
Other Financing Sources (Uses) - Net	16,037	16,389
Net Increase (Decrease) in Fund Balance	(545)	667

Expenditures for Seattle services were $35,983,155 in 2001 and $34,683,205 in 2000. The City of Seattle accounts for its share of the Department's expenditures in the General Fund. That support was $14,837,891 in 2001 and $14,212,441 in 2000. Included in that General Fund support was $4,341,899 in 2001 and $4,213,522 in 2000 for emergency health care services to low-income residents.

The Seattle-King County Department of Public Health is accounted for in the King County financial statements, which can be obtained from the King County Office of Financial Management, King County Administration Building, Seattle, WA 98104 (Telephone 206-296-7318).

Seattle-King County Workforce Development Council

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a non-profit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: 1) the agency creating the liability; 2) the insurance carrier; 3) future program years; and 4) as a final recourse, from King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2001, there are no outstanding program eligibility issues that may lead to a City of Seattle liability.

The WDC contracts with the City of Seattle which provides programs related to the Workforce Development Act (WIA) Youth In-School Program. For the year 2001 WDC has paid $550,699 to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162.

(13) COMMITMENTS

General

Capital Improvement Program

The City adopted the 2001-2002 Capital Improvement Program (CIP), which functions as a capital financing plan for the years 2001-2006 totaling $2.8 billion. The endorsed CIP for 2001 was $678.3 million, consisting of $268 million for City-owned utilities and $410.3 million for nonutility departments. The utility allocations are: $153.3 million for City Light, $67.9 million for Water, $43.2 million for Drainage and Wastewater, and $3.6 million for Solid Waste. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

City Light

Purchased and Wholesale Power

Bonneville Power Administration

City Light (the Utility) purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA), under a long-term contract that expired on September 30, 2001. The BPA rate structure is based on the total amount of energy delivered and the monthly peak power demand.

Until August 1, 1996, the Utility was an actual computed requirements customer of BPA and was entitled to buy from BPA the energy required to fill the variance between its customer load and its firm power resources. The Utility had a right to displace this entitlement by payment of an availability charge. Effective August 1, 1996, the contract with BPA was amended through the remaining life of the contract to limit purchases to 195 megawatts. The Utility displaced part of this amount by paying an availability charge; almost no BPA energy was displaced in 2001 and 1.3 average megawatts was displaced in 2000. Power purchased under this contract was 195.0 average megawatts through September 30, 2001, and 193.7 average megawatts in 2000. The 1996 contract amendment required payment of a diversity fee of $2.0 million that was amortized through September 30, 2001.

In 1983 the Utility entered into separate net billing agreements with BPA and Energy Northwest (formerly the Washington Public Power Supply System), a municipal corporation and joint operating agency of the State of Washington, with respect to sharing costs for the construction and operation of three nuclear generating plants. Under these agreements the Utility is unconditionally obligated to pay Energy Northwest a pro rata share of the total annual costs, including debt service, to finance the cost of construction whether or not construction is completed, delayed, or terminated, or operation is suspended or curtailed. The net billing agreements provide that these costs be recovered through BPA rates. One plant is in commercial operation. Construction of the other two plants has been terminated.

In October 2000 the Utility signed a Block and Slice Power Sales Agreement with BPA covering purchases of power for the 10-year period beginning October 1, 2001. Under the terms of the contract as amended, the Utility is entitled to purchase

444.4 average megawatts of firm power from October 1, 2001, through September 30, 2002, and 493.8 average megawatts of firm power from October 1, 2002, to September 30, 2006. Firm power available under the contract will increase to 608.2 average megawatts in the second five years of the contract period to provide for load growth and to offset a decline in power available through the Utility's contracts with the Columbia Storage Power Exchange, Pend Oreille County PUD, and Public Utility District No.1 of Grant County. As a result of an allocation agreement among BPA customers, the Utility receives 330 average megawatts of this firm energy in the form of a Slice product, through which the department received a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System and is required to pay that same percentage of the actual costs of the system. Payments for the Slice product are subject to adjustment to reflect actual costs. In addition to the 330 average megawatts of firm power available to the Utility from the Slice product, the Utility expects to receive some nonfirm power from its share of the Slice product under all water conditions, federal generating capabilities, and fish and wildlife restoration requirements. The remaining firm power in the first contract year of 114.4 average megawatts, second through fifth contract years of 163.8 average megawatts and 278.2 average megawatts in the second five-year contract period will be received as a block of power shaped to the Utility's monthly net requirement, defined as the difference between the Utility's projected monthly load and firm resources available to serve that load. Estimated payments over the 10-year contract total $1.6 billion.

Lucky Peak

In 1984 the Utility entered into a purchase power agreement with four irrigation districts to acquire 100 percent of the net output of a hydroelectric facility constructed in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract whether or not the plant is operating or operable.

The power purchased under this agreement was 21.5 average megawatts and 38.8 average megawatts in 2001 and 2000, respectively. To properly reflect its rights and obligations under this agreement, the Utility includes as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account.

British Columbia-Ross Dam

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with power equivalent to that which would result by increasing the height of Ross Dam. The agreement was ratified by a treaty between Canada and the United States in the same year. The power is to be received for 80 years and began in 1986. The Utility makes annual payments to British Columbia of $21.8 million through 2020, which represent the estimated cost the Utility would have incurred for financing had the addition been constructed. The payments are charged to expense over a period of 50 years (through 2035).

The Utility is also paying equivalent operation and maintenance costs. Payments made for this purpose were $160,774 and $153,499 in 2001 and 2000, respectively. The power purchased under this agreement was 35.1 megawatts and 33.8 megawatts and up to 143 megawatts and 175 megawatts of actual peak capacity in 2001 and 2000, respectively.

In addition to the direct costs of power under the agreement, the Utility incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1.0 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years.

Klamath Falls

In November 2000 the Utility and the City of Klamath Falls, Oregon, entered into an agreement for the purchase of energy and capacity from the Klamath Falls Cogeneration Project, a 500-megawatt unit consisting of two combustion turbines fueled by natural gas and a steam generator. Under the terms of the contract the Utility receives 100 megawatts of capacity from the project beginning on project's on-line date of July 29, 2001, and for five years thereafter, with an option to renew the contract for an additional five years. The power purchased under this agreement was 37.2 average megawatts. The Utility assumes gas price and exchange rate risks for natural gas from Alberta, Canada. In April 2001 the Utility entered into a separate contract to swap Canadian-dollar gas prices for a fixed U.S.-dollar gas price. Estimated payments totals $155.8 million through July 31, 2006.

Wind Generation

In October 2001 the Utility entered into an agreement with PacifiCorp Power Marketing, Inc. (PPMI) for the purchase of energy and associated environmental attributes primarily from the State Line Wind Project, a facility consisting of 399 660-kilowatt wind turbines located in Walla Walla County, Washington, and Umatilla County, Oregon. The Utility will receive firm energy with an aggregate maximum delivery rate per hour of 50 megawatts from January 1, 2002, through July 31, 2002, and 100 megawatts from August 1, 2002, through December 31, 2021. The Utility will also receive additional firm energy with an aggregate maximum delivery rate per hour of 25 megawatts from January 1, 2004, through June 30, 2004, and 50 megawatts from July 1, 2004, through December 31, 2021, from the State Line Wind Project or other qualifying new wind generation facility. Additional energy maybe available at the option of the seller and must be from other new qualifying wind generation projects. The Utility entered into a related ten-year agreement to sell integration and exchange services to PPMI. Net payments under the three contracts for the purchase power and related integration and exchange services received and provided are estimated at $467.4 million.

Other Long-Term Purchase Power Agreements

The Utility also purchases energy from Public Utility Districts (PUDs) No.1 of Pend Oreille County and No. 2 of Grant County under agreements expiring October 31, 2005; the Grand Coulee Project Hydroelectric Authority (the Authority) which includes the South, East, and Quincy Columbia Basin Irrigation Districts under 40-year agreements that expire from 2022 to 2027; and the Columbia Storage Power Exchange until expiration of the agreement on March 31, 2003. Power purchased under these contracts was 77.4 average megawatts in 2001 and 87.3 average megawatts in 2000. Rates under the PUD (excluding Pend Oreille County) and Authority contracts represent a share of the operating and debt service costs in proportion to the share of total energy to which the Utility is entitled whether or not these plants are operating or operable.

Three new contracts were executed in March 2002 with Grant County to replace the contract expiring October 31, 2005. The agreements are effective November 1, 2005, and run concurrent with the term of the future federal relicense period.

Minimum Payments Under Purchase Power Contracts

The Utility's estimated payment under its contract with BPA, the PUD, irrigation districts, power exchange corporation, Lucky Peak Project, and British Columbia - Ross Dam, and with PPMI and Pacificorp for wind energy and net integration and exchange services for the period from 2002 through 2021 are:

Table 13-1 Minimum Payments under Purchase Power Contracts (In Thousands)

Year Ending December 31	Minimum Payments
2002	$ 240,363
2003	233,151
2004	243,791
2005	246,406
2006	229,895
Thereafter	1,571,690
TOTAL	$ 2,765,296

Payments under these long-term contracts totaled $135.0 million in 2001 and $50.3 million in 2000. Energy received represented 99.7 percent of the Utility's total purchases under firm power contracts during 2001 and 99.8 percent during 2000.

Wholesale Power Transactions

Power transactions in response to seasonal resource and demand variations include purchases and sales at market under short-term agreements and exchanges of power under long and short-term contracts. Wholesale purchase power commitments outstanding were $2.9 million and $42.5 million at December 31, 2001 and 2000, respectively. For power sales forward contracts there were 42.7 million outstanding as of December 31, 2001, and no outstanding commitments as of December 31, 2000.. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Utility's hydroelectric facilities. Accordingly, power sales and purchase transactions may vary significantly from year to year. Wholesale power transactions, net are reflected in the statement of revenues, expenses, and changes in retained earnings.

In March 1998 the Utility was certified as a scheduling coordinator with the California Independent System Operator to submit schedules and sell power and ancillary services in California.

Seattle Public Utilities (SPU)

Water Fund

Cedar River Watershed

Seattle Public Utilities prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the Seattle Public Utilities and City Light in the Cedar River Watershed while allowing the City to continue to provide high quality drinking water to the region. The Federal government has accepted the HCP. Expenses are expected to be funded from a combination of operating revenues and debt.

The Water Fund negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995 and approved in January 1996. The costs for an ozonation facility are estimated at $80.0 million to $100.0 million depending on facility size and treatment technology. It is anticipated SPU will fund these estimated capital expenditures over the next decade, primarily through water revenue bonds. This facility is scheduled to be operational by the year 2004.

Drainage and Wastewater Fund

National Oceanic and Atmospheric Administration (NOAA) Settlement

In 1991 the City of Seattle entered into a Consent Decree with the United States, the Muckleshoot Indian Tribe, the Suquamish Indian Tribe, and the State of Washington to make restitution of up to $12.1 million for alleged damages to the natural resources of Elliott Bay and the Lower Duwamish River by combined sewer overflow and storm drain discharges (the NOAA Settlement). The Elliott Bay Duwamish Restoration Program Panel, of which the City is a member, was formed to direct the project activities to be performed in accordance with the Decree.

The Decree calls for payment of $6.0 million for sediment remediation, $2.5 million for habitat development, and $0.1 million for reimbursement of costs for natural resources damage assessment. The Panel may allow for payment through in-kind services as approved. Additionally, up to $2.5 million of real property and up to $1.0 million of in-kind services for source control will be provided. SPU is charged with the responsibility of managing the City's obligation, which includes contributions from other departments.

In 1997 the Drainage and Wastewater Fund paid about $6.2 million toward the liability. An additional $2.2 million of the liability was settled by the Parks Department on behalf of the Fund through a donation of real property. This was reflected in the statement of revenues, expenses, and changes in retained earnings as an increase to other revenues. Prior to December 31, 1996, the Fund settled a $2.4 million liability through cash payments and in-kind services. The remaining liability is estimated to be $1.0 million at December 31, 2001.

Separately, the US Environmental Protection Agency has indicated that it will require the clean-up and remediation of certain Duwamish sites under its "Superfund" authority. No specific requirements have been made from EPA at the time of this note. The Fund has chosen to accrue approximately $1.2 million to cover future study and evaluation of possible clean-up and remediation costs.

Wastewater Disposal Agreement

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by Seattle Public Utilities and other component agencies. The 2001 and 2000 payments to the Division were approximately $79.5 million and $77.5 million, respectively.

Solid Waste Fund

Contractual Obligations

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky items and backyard service. New residential collection contracts with two private companies were implemented in April 2000. Total payments during 2001 and 2000 were approximately $21.8 million and $20.3 million, respectively. The Solid Waste Fund estimates that the total costs under these contracts will be about $22.3 million in 2002.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable City waste, including the City's commercial waste collected by two State-franchised haulers. In 1996 the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2006. In exchange, WWS agreed to change the contract prices from approximately $45 per ton in 1996 to $41.57 per ton beginning April 15, 1997, and $43.70 per ton beginning April 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90 percent of the Seattle-Tacoma CPI to 80 percent effective April 15, 1998. The Fund paid WWS approximately $21.7 million in 2001 and $21.4 million in 2000 under this contract. The Fund estimates these costs to be $21.2 million in 2002.

For several years the City has been in negotiations with the State-franchised haulers that have collected commercial waste in the City to bring them under contract with the City. The negotiations were successful and as of April 1, 2001, commercial garbage is collected under these new contracts. In 2001, payments under these contracts totaled approximately $11.5 milliom. In 2002, payments are expected to be $18.0 million. The contracts will expire on March 31, 2008, but the City retains an option to extend them to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts, the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. and changes to the disposal contract. The first opt-out date on the disposal contract was pushed out from March 31, 2006, to March 31, 2009, for price reductions of $1.50 per ton in 2003, an additional $1.50 per ton in 2005, and a final $1.50 per ton in 2007.

Landfill Closure and Postclosure Care

At December 31, 2001 and 2000, accrued landfill and postclosure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as deferred costs in the accompanying financial statements. These costs are being amortized as they are recovered from rate payers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, and changes in regulations. No asset in the balance sheet is restricted for payment of closure and postclosure care costs.

In prior years the Fund delivered its refuse to two leased disposal sites: Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, Federal and State requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste at the Midway site in 1983 and at the Kent-Highlands site in 1986.

Subsequent to their closings, both Kent-Highlands and Midway landfills were declared Superfund sites by the Federal government. In the same time period nearby landowners, residents, and the Federal and State governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to Kent-Highlands and Midway landfills. Any future changes in the accrued landfill liability will be reflected in Solid Waste Fund rates.

In 1996 the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation and Liability Act) were liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately $2.2 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered $6.4 million. The City does not anticipate any further legal actions relating to either landfill.

(14) CONTINGENCIES

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for its general liability risk since 1986, for workers' compensation since 1972, and for employees' health care benefits starting in 2000. The City has a retrospectively rated excess insurance policy on workers' compensation in 2001 for up to the maximum amount the City is required by law to pay, with a self-insured retention of $0.5 million.

Effective January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over $2.5 million per occurrence and includes a $25.0 million limit per occurrence. Starting February 1, 2002, the City's excess general liability insurance covers losses over $5.0 million per occurrence, with a $25.0 million limit per occurrence. There was no reduction of commercial insurance coverage during 2001 from 2000, and there were no settlements in excess of insurance coverage for 2001 and 2000. The City received $2.0 million from an insurer for a settlement during 2001, none in 2000.

Claims liabilities are based on the estimated ultimate cost of settling claims, including case reserves or estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually by the Law Department using historical trends and analyses of individual cases. Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. IBNR is estimated for lawsuits, other claims, health care benefits, and workers' compensation claims based on independent actuarial studies performed for 2001. IBNR undiscounted totaled $30.1 million and $38.9 million at December 31, 2001 and 2000, respectively.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation subrogation recoveries were $0.4 million and $0.2 million in 2001 and 2000, respectively. All workers' compensation recoveries are deposited in the General Fund. Lawsuit and other claim recoveries of payments reimbursed by the utilities are deposited in the paying utility fund and do not affect the utility reserves. There were two annuity contracts purchased in 2001 for $0.5 million each to fund a structured settlement to pay a claim on fixed future dates based on a court judgment against the City; none in 2000.

Claim liabilities recorded in the financial statements are discounted at 5.341 percent for 2001 and 6.167 percent for 2000, the City's average annual rates of return on investments. The total discounted liability at December 31, 2001, was $74.6 million, consisting of $46.8 million for general liability, $7.4 million for health care, and $20.4 million for workers' compensation.

Risk Management

Table 14-1 Reconciliation of Changes in Aggregate Liabilities for Claims (In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2001	2000	2001	2000	2001	2000	2001	2000
UNDISCOUNTED								
Balance - beginning of fiscal year	$ 50,360	$ 41,979	$ 5,825	$ -	$ 23,064	$ 21,204	$ 79,249	$ 63,183
Less claim expenses during the year	(19,099)	(6,190)	(68,328)	52,200	(10,211)	(8,058)	(97,638)	37,952
Plus claims and changes in estimates	25,140	14,571	69,990	(46,375)	10,839	9,918	105,969	(21,886)
BALANCE - END OF FISCAL YEAR	$ 56,401	$ 50,360	$ 7,487	$ 5,825	$ 23,692	$ 23,064	$ 87,580	$ 79,249
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF:								
General Long-Term Debt Account Group	$ 45,876	$ 39,319	$ 7,487	$ 5,825	$ 15,469	$ 14,941	$ 68,832	$ 60,085
Proprietary Funds	10,525	11,041	-	-	8,223	8,123	18,748	19,164
BALANCE - END OF FISCAL YEAR	$ 56,401	$ 50,360	$ 7,487	$ 5,825	$ 23,692	$ 23,064	$ 87,580	$ 79,249
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF:								
General Long-Term Debt Account Group	$ 37,193	$ 31,346	$ 7,442	$ 5,455	$ 13,304	$ 12,151	$ 57,939	$ 48,952
Proprietary Funds	9,606	8,957	-	-	7,071	6,607	16,677	15,564
BALANCE - END OF FISCAL YEAR	$ 46,799	$ 40,303	$ 7,442	$ 5,455	$ 20,375	$ 18,758	$ 74,616	$ 64,516

Environmental

The following sites are in various stages of the Federal Government's Environmental Protection Agency (EPA) Superfund cleanup process or the parallel process under the State's Model Toxics Control Act (MTCA). In general, the total cleanup costs, claims for payment of government response costs, or the City's ultimate shares of responsibility are difficult to estimate accurately.

- Gasworks Park - The City and Puget Sound Energy (PSE) entered into a consent decree with Washington State Department of Ecology to perform a cleanup of the park. The City and PSE reached a final settlement concerning the allocation of cleanup costs at the park in 2000. Pursuant to the settlement agreement, the City will pay less than $1.0 million of the $3.0 million cleanup costs. Other City liability, if any, is indeterminate.

- Water Tank Sites and Surrounding Properties - The Seattle Public Utilities is voluntarily investigating and performing environmental remediation, including soil remediation, at 16 locations of above-ground water storage tanks. The presence of lead and arsenic on such sites may be associated with past practices relating to removal of paint materials containing lead, the use of blasting materials with metals, and other building materials. This environmental project is expected to continue for several years. Ultimate City liability relating to property remediation is indeterminate.

- Harbor Island - This complex Superfund site at the mouth of Duwamish River may result in City liability in a variety of contexts. Seattle City Light was alleged to have scrapped some electrical transformers at this island. Furthermore, a separate operable unit of marine sediment contamination in connection with storm drainage discharges at this site has been under investigation by EPA. Ultimate City liability at this Superfund site has not been determined.

- Lower Duwamish Waterway Sediments – The Lower Duwamish Waterway was listed as a Federal Superfund site on the national priorities list in 2001 for contaminated sediments. City Light's ownership or use of the property allegedly caused the contamination. In 2000 the City and three other parties entered into a consent order with the EPA and the Department of Ecology to conduct remedial investigation or feasibility study regarding the sediments. The City's ultimate liability is indeterminate.

- Potential Superfund Sites - There may be other properties which could be designated Superfund sites or could be designated under the State's MTCA. Demands with respect to such sites may be made on the City by regulatory entities, or the City may choose to clean them up voluntarily once they are identified. The City may also pursue third parties for cost contributions.

Other Matters

- Streetlight Litigation – Following three years of negotiation the City of Seattle and the adjacent City of Shoreline agreed in 1999 on a new fifteen-year franchise for Seattle City Light to supply electric service in Shoreline. A primary condition of issuing the franchise was the requirement that Seattle City Light provide streetlights as part of the electric utility service billed to ratepayers in Shoreline. Similar franchise agreements with the same streetlight requirements were subsequently entered into with the cities of Burien, Lake Forest Park, and SeaTac.

  Having agreed to provide streetlights as part of the electric utility service in these suburban jurisdictions, the City of Seattle adopted the same principle by ordinance and in 2000 likewise transferred billing for the streetlights to electric ratepayers. A 1958 franchise with Tukwila requires the same rate terms and conditions to prevail in Tukwila as in Seattle, so the change in streetlight treatment now applies in Tukwila as well.

  In January 2001 the Washington State Attorney General issued an opinion which concluded that the transfer of streetlight responsibilities to the electric ratepayers in the suburban jurisdictions served by Seattle and in Seattle itself was unlawful. In April 2001 Seattle and a number of other affected cities filed a declaratory judgment action against the State Auditor and the State of Washington in King Country Superior Court to resolve the issue. Cross motions by Seattle and the State were filed in October 2001 and the Superior Court Judge ruled in favor of the State in November 2001. Seattle has now filed an appeal with the Washington Court of Appeals, Division I. Appellate briefing has been delayed by Seattle seeking a hearing in the Court of Appeals on a Motion to Vacate the Trial Court Judgment based on passage of new legislation in the 2002 Legislative Session (HB 2902, Chapter 102 Laws of 2002). The State opposed the motion and a hearing was conducted before a Court Commissioner on May 3, 2002. The Court Commissioner denied the motion by Ruling entered May 17, 2002.

  The financial impact in Seattle of the streetlight costs, including both electric power and maintenance costs, is between $5.0 million and $6.0 million per year.

  A separate class action lawsuit has also been filed by Seattle City Light ratepayers against Seattle regarding the legality of the street light ordinance.

- There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospect of material, adverse outcomes therein are remote. Other than the aforementioned cases, there were no outstanding material judgments against the City, nor was the City seeking to collect material amounts.

Guarantees of the Indebtedness of Others

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

Museum Development Authority of Seattle

Special obligation refunding bonds issued October 12, 1994, in the amount of $32,645,000. The outstanding amount at December 31, 2001, was $29,065,000. The bonds will be fully retired by July 1, 2024.

Pike Place Market Preservation and Development Authority

Special obligation refunding bonds issued on March 7, 1991, in the amount of $9,005,000 for current interest and $1,376,671 for deferred interest of which $6,045,000 and $1,218,574, respectively, were outstanding at December 31, 2001. The bonds will be fully retired by November 1, 2017.

Special obligation refunding bonds issued November 1, 1996, in the amount of $6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2001, was $6,090,000. The bonds will be fully retired by December 1, 2021.

Seattle Chinatown-International District Preservation and Development Authority

Special obligation refunding bonds issued September 15, 1996, in the amount of $9,000,000. The outstanding amount at December 31, 2001, was $8,460,000. The bonds will be fully retired by August 1, 2026.

Seattle Indian Services Commission

Special obligation refunding bonds issued on March 7, 1991, in the amount of $4,670,000 of which $3,655,000 was outstanding at December 31, 2001. The bonds will be fully retired by November 1, 2017.

Special obligation bonds issued on March 28, 1994, in the amount of $6,000,000 of which $5,410,000 was outstanding on December 31, 2001. The bonds will be fully retired by November 1, 2024.

(15) RECLASSIFICATIONS, RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES

Reclassification and restatements have been made with respect to prior year's balances to provide presentation consistent with the current year.

A material amount of block grant entitlement at the end of the year 2000 was recorded as revenue. It should have been recorded as deferred revenue. A prior-period adjustment was made accordingly.

An interfund transfer was improperly recorded to a fund that was closing in 2000. A prior-period adjustment was made to move the interfund transfer to the appropriate fund.

The Department of Information Technology did not properly reduce inventory when items were issued. Inventory at the end of 2000 was restated based on physical count, and a prior-period adjustment was recorded.

(16) SUBSEQUENT EVENTS

On January 28, 2002, the City issued $125.51 million in Limited Tax General Obligation (LTGO) Improvement and Refunding Bonds. The interest rates on the bonds range from 3 percent to 5.2 percent. The serial bonds mature serially from July 1, 2002, through July 1, 2025, and term bonds of $3.91 million mature on July 1, 2027, and $11.69 million mature on July 1, 2032. The proceeds of the bonds are used to pay all or part of the costs of construction, acquisition, and improvement of various City capital projects, including the Civic Center (Justice Center, City Hall, Open Space, Arctic, Key Tower) and other various projects. Part of the proceeds was also used to refund the remaining $29.35 million 1992 LTGO Refunding Bonds, which partially refunded the 1988 LTGO Historic Building Bonds.

On May 15, 2002, the City issued $32.5 million Water System Adjustable Rate Revenue Bonds, 2002, Series A, and $32.5 Water System Adjustable Rate Revenue Bonds, 2002, Series B. Both bond issues are due March 1, 2032. The bonds of a series are initially in a Weekly Mode but interest is payable on the first Wednesday of each month. The initial interest rate determined on the issue date is 1.6 percent, which is effective for the first week only. Future interest rates and interest periods on the bonds will be determined by J. P. Morgan Securities Inc., as Remarketing Agent for the Series A bonds and by Lehman Brothers Inc., as Remarketing Agent for the Series B bonds. Proceeds of the issuance are used to finance certain capital improvements and conservation programs for the City's water system.

The Pike Place Market Preservation and Development Authority and the Seattle Indian Services Commission (PDAs) issued Special Obligation Revenue Refunding Bonds dated March 1, 2002, in the amount of $5.925 million and $ 3.71 million, respectively. The City is unconditionally obligated to pay into the respective bond funds of these PDAs in the event PDA revenues are insufficient to maintain either of the PDA's debt service accounts at their required levels or to meet scheduled payments of principal of or interest on the respective series of the bonds.